# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

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# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2015**
**Commission File Number 001-10315**

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# HealthSouth Corporation
**(Exact Name of Registrant as Specified in its Charter)**

| **Delaware** | **63-0860407** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **3660 Grandview Parkway, Suite 200 Birmingham, Alabama** | **35243** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**(205) 967-7116**
**(Registrant's telephone number)**

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |

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

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Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐
Indicate by check mark 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. ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-Accelerated filer ☐ Smaller reporting company ☐
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes ☐ No ☒
The aggregate market value of common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $4.0 billion . For purposes of the foregoing calculation only, executive officers and directors of the registrant have been deemed to be affiliates. There were 89,777,044 shares of common stock of the registrant outstanding, net of treasury shares, as of February 16, 2016 .

**DOCUMENTS INCORPORATED BY REFERENCE**

The definitive proxy statement relating to the registrant's 2016 annual meeting of stockholders is incorporated by reference in Part III to the extent described therein.

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## NOTE TO READERS

As used in this report, the terms "HealthSouth," "we," "us," "our," and the "Company" refer to HealthSouth Corporation and its consolidated subsidiaries, unless otherwise stated or indicated by context. This drafting style is suggested by the Securities and Exchange Commission and is not meant to imply that HealthSouth Corporation, the publicly traded parent company, owns or operates any specific asset, business, or property. The hospitals, operations, and businesses described in this filing are primarily owned and operated by subsidiaries of the parent company. In addition, we use the term "HealthSouth Corporation" to refer to HealthSouth Corporation alone wherever a distinction between HealthSouth Corporation and its subsidiaries is required or aids in the understanding of this filing. We use the term "Encompass," depending on the context, to refer to our consolidated subsidiary, EHHI Holdings, Inc. ("EHHI"), and its subsidiaries as well as the home health and hospice business operated through various subsidiaries of EHHI.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, changes to Medicare reimbursement and other healthcare laws and regulations from time to time, our business strategy, our dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, the reader can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “targets,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the following:

- each of the factors discussed in Item 1A, *Risk Factors* ; as well as uncertainties and factors discussed elsewhere in this Form 10-K, in our other filings from time to time with the SEC, or in materials incorporated therein by reference;
- changes in the rules and regulations of the healthcare industry at either or both of the federal and state levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction such as the reinstatement of the “75% Rule” or the introduction of site neutral payments with skilled nursing facilities for certain conditions, and related increases in the costs of complying with such changes;
- reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors;
- delays in the administrative appeals process associated with denied Medicare reimbursement claims, including from various Medicare audit programs, and our exposure to the related delay or reduction in the receipt of the reimbursement amounts for services previously provided;
- the ongoing evolution of the healthcare delivery system, including alternative payment models and value-based purchasing initiatives;
- our ability to comply with extensive and changing healthcare regulations as well as the increased costs of regulatory compliance and compliance monitoring in the healthcare industry, including the costs of investigating and defending asserted claims, whether meritorious or not;
- our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing recruitment and retention;
- competitive pressures in the healthcare industry and our response to those pressures;
- changes in our payor mix or the acuity of our patients;
- our ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with our growth strategy, including realization of anticipated revenues, cost savings, and productivity improvements arising from the related operations;
- any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings, including the ongoing investigations initiated by the U.S. Department of Health and Human Services, Office of the Inspector General;
- increased costs of defending and insuring against alleged professional liability and other claims and the ability to predict the costs related to such claims;
- potential incidents affecting the proper operation, availability, or security of our information systems;
- new or changing quality reporting requirements impacting operational costs or the Medicare reimbursement;
- the price of our common stock as it affects our willingness and ability to repurchase shares and the financial and accounting effects of any repurchases;

- our ability and willingness to continue to declare and pay dividends on our common stock;
- our ability to successfully integrate Encompass Home Health and Hospice, the inpatient rehabilitation hospitals acquired from Reliant Hospital Partners, LLC, and the home health agency operations of CareSouth Health System, Inc., including the realization of anticipated benefits from those acquisitions and avoidance of unanticipated difficulties, costs or liabilities that could arise from the acquisitions or integrations;
- our ability to maintain proper local, state and federal licensing where we and our subsidiaries do business;
- our ability to attract and retain key management personnel, including as a part of executive management succession planning; and
- general conditions in the economy and capital markets, including any instability or uncertainty related to governmental impasse over approval of the United States federal budget, an increase to the debt ceiling, or an international sovereign debt crisis.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

## PART I

**Item 1. Business.**

**Overview of the Company**

*General*

HealthSouth Corporation is one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 34 states and Puerto Rico through its network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. HealthSouth was organized as a Delaware corporation in February 1984. Its principal executive offices are located at 3660 Grandview Parkway, Birmingham, Alabama 35243, and the telephone number of the principal executive offices is (205) 967-7116.

In addition to the discussion here, we encourage the reader to review Item 1A, *Risk Factors* , Item 2, *Properties,* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , which highlight additional considerations about HealthSouth.

We manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. The table below provides selected operating and financial data for our inpatient rehabilitation hospitals, home health agencies, and hospice agencies. See Note 18, *Segment Reporting* , to the accompanying consolidated financial statements for detailed financial information for each of our segments.

| | As of or for the Year Ended December 31, [1] | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Consolidated data:** | (Actual Amounts) | | |
| *Inpatient rehabilitation:* | | | |
| Number of hospitals [2] | 121 | 107 | 103 |
| Discharges | 149,161 | 134,515 | 129,988 |
| Outpatient visits | 577,507 | 579,555 | 652,266 |
| Number of licensed beds | 8,404 | 7,095 | 6,825 |
| | | | |
| *Home health and hospice:* | | | |
| Number of home health locations [3] | 186 | 25 | 25 |
| Number of hospice locations | 27 | — | — |
| Home health admissions | 74,329 | 7,545 | 7,403 |
| Home health episodes | 137,568 | 8,236 | 7,969 |
| Hospice admissions | 2,452 | — | — |
| | | | |
| *Net operating revenues:* | (In Millions) | | |
| Inpatient | $ 2,547.2 | $ 2,272.5 | $ 2,130.8 |
| Outpatient and other | 105.9 | 104.8 | 113.6 |
| Total inpatient rehabilitation | 2,653.1 | 2,377.3 | 2,244.4 |
| Home health | 478.1 | 28.6 | 28.8 |
| Hospice | 31.7 | — | — |
| Total home health and hospice | 509.8 | 28.6 | 28.8 |
| Net operating revenues | $ 3,162.9 | $ 2,405.9 | $ 2,273.2 |

(1) The columns for 2014 and 2013 do not include amounts for Encompass because the acquisition took place on December 31, 2014, as discussed below.

(2) These amounts include 1, 1, and 2 hospitals as of December 31, 2015, 2014, and 2013, respectively, that operate as joint ventures which we account for using the equity method of accounting.

(3) The amount reported as of December 31, 2015 includes 2 locations we account for using the equity method of accounting.

Encompass Acquisition . On December 31, 2014, we completed the acquisition of EHHI Holdings, Inc. ("EHHI") and its Encompass Home Health and Hospice business ("Encompass"), which at the time consisted of 135 home health and hospice locations in 12 states. In the acquisition, we acquired all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to HealthSouth Home Health Holdings, Inc. ("Holdings"), a subsidiary of HealthSouth and now indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. These certain sellers were members of Encompass management, including April Anthony, the Chief Executive Officer of Encompass. These sellers contributed a portion of their shares of common stock of EHHI in exchange for approximately 16.7% of the outstanding shares of common stock of Holdings. We view Encompass as a partnership that brings together the talent and home care experience of the existing Encompass team with all of the resources and post-acute care experience of HealthSouth.

Reliant Acquisition . On October 1, 2015, we acquired all of the equity interests of the various entities operating 11 free-standing inpatient rehabilitation hospitals with a total of 902 beds in Texas, Massachusetts and Ohio from Reliant Hospital Partners, LLC ("Reliant") and its affiliates. At closing, one Reliant hospital entity had a remaining minority limited partner interest of 0.5%.

*Inpatient Rehabilitation*

We are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. While our national network of inpatient hospitals stretches across 29 states and Puerto Rico, we are concentrated in the eastern half of the United States and Texas. In addition to our hospitals, we manage three inpatient rehabilitation units through management contracts.

Our inpatient rehabilitation hospitals offer specialized rehabilitative care across a wide array of diagnoses and deliver comprehensive, high-quality, cost-effective patient care services. As participants in the Medicare program, our hospitals must comply with various requirements that are discussed below in the "Sources of Revenues—Medicare Reimbursement—Inpatient Rehabilitation" section. Substantially all ( 92% ) of the patients we serve are admitted from acute care hospitals following physician referrals for specific acute inpatient rehabilitative care. The majority of those patients have experienced significant physical and cognitive disabilities or injuries due to medical conditions, such as strokes, hip fractures, and a variety of debilitating neurological conditions, that are generally nondiscretionary in nature and require rehabilitative healthcare services in an inpatient setting. Our teams of highly skilled nurses and physical, occupational, and speech therapists utilize proven technology and clinical protocols with the objective of restoring our patients' physical and cognitive abilities. Patient care is provided by nursing and therapy staff as directed by physician orders while case managers monitor each patient's progress and provide documentation and oversight of patient status, achievement of goals, discharge planning, and functional outcomes. Our hospitals provide a comprehensive interdisciplinary clinical approach to treatment that leads to a higher level of care and superior outcomes.

*Home Health and Hospice*

Encompass is the nation's fourth largest provider of Medicare-certified skilled home health services. We transitioned substantially all of our previously existing HealthSouth home health operations to Encompass during 2015. On November 2, 2015, Encompass completed the acquisition of the home health and hospice agency operations (44 home health and 3 hospice locations in 7 states) of CareSouth Health System, Inc. These operations will also be operated under the Encompass trade name. While Encompass's national network of home health and hospice agencies stretches across 23 states, they are concentrated in the Southeast and Texas. As participants in the Medicare program, the Encompass agencies must comply with various requirements that are discussed below in the "Sources of Revenues—Medicare Reimbursement—Home Health" and "—Hospice" sections.

Encompass home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational and speech therapy, medical social work, and home health aide services. Home health patients are typically referred to us following a stay in an acute care or inpatient rehabilitation hospital or other facility, but many patients are referred from primary care settings and specialty physicians without a preceding inpatient stay. Our patients are typically older adults with two or more chronic conditions and significant functional limitations, and require greater than ten medications. Our team of registered nurses, licensed practical nurses, physical, speech and occupational therapists, medical social workers, and home health aides work closely with patients and their families to deliver patient-centered care plans focused on their needs and their goals.

Encompass also provides specialized home care services in Texas and Kansas for pediatric patients with severe medical conditions. Encompass hospice services primarily include in-home services to terminally ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual

support. Our hospice care teams consist of physicians, nurses, social workers, chaplains, therapists, home health aides, and volunteers.

*Competitive Strengths*

As one of the nation's largest providers of post-acute healthcare services and with our experience in and focus on those services, we believe we differentiate ourselves from our competitors based on, among other things, our broad platform of clinical expertise, the quality of our clinical outcomes, the sustainability of best practices, our financial strength, and the application of technology. We also believe our competitive strengths discussed below give us the ability to adapt and succeed in a healthcare industry facing the uncertainty associated with the efforts to identify and implement workable integrated payment delivery models.

- People . We believe our approximately 34,700 employees, in particular our highly skilled clinical staff, share a steadfast commitment to providing outstanding care to our patients. We also undertake significant efforts to ensure our clinical and support staff receives the education and training necessary to provide the highest quality care in the most cost-effective manner.

- Quality . We have an extensive base of facility-based and home-based clinical experience from which we have developed best practices and protocols. We believe these clinical best practices and protocols, particularly as leveraged with industry leading technology, help ensure the delivery of consistently high-quality rehabilitative healthcare services. We have developed a program called "TeamWorks," which is a series of operations-focused initiatives using identified best practices to reduce inefficiencies and improve performance across a wide spectrum of operational areas. We believe these initiatives have enhanced, and will continue to enhance, patient-employee interactions and coordination of care and communication among the patient, the patient's family, the hospital's treatment team, and payors, which, in turn, improves outcomes and patient satisfaction. One of our primary operating initiatives in 2016 will be a TeamWorks program focused on enhancing coordinated care protocols for our hospitals and home health agencies.

  Our best practices and protocols have helped our hospitals consistently achieve patient outcomes, in terms of functional improvement, that exceed industry averages. Additionally, our hospitals participate in The Joint Commission's Disease-Specific Care Certification Program. Under this program, Joint Commission accredited organizations, like our hospitals, may seek certification for chronic diseases or conditions such as brain injury or stroke rehabilitation by complying with Joint Commission standards, effectively using evidence-based, clinical practice guidelines to manage and optimize patient care, and using an organized approach to performance measurement and evaluation of clinical outcomes. Obtaining such certifications demonstrates our commitment to excellence in providing disease-specific care. As of December 31, 2015, 102 of our hospitals hold one or more disease-specific certifications.

  In home health, Encompass places a significant emphasis on culture and technology for the purpose of furthering clinical excellence and consistency. Encompass has also developed institutional programs to, among other things, create physician-specific custom treatment protocols and provide care transition from inpatient facilities to home for higher acuity patients. As a result of its efforts, Encompass consistently achieves an acute-care readmission rate lower than the industry average along with an average quality of patient care star rating and patient satisfaction levels above the industry average.

- Efficiency and Cost Effectiveness . Our size, technology-enabled business practices, and culture help us provide facility-based and home-based healthcare services on a cost-effective basis. For example, our inpatient rehabilitation hospitals have historically received, on average, a lower per discharge payment from Medicare than the industry average payment while also treating patients with higher average acuity. Specifically, we can leverage our centralized administrative functions, identify best practices, utilize proven staffing models, and take advantage of certain supply chain efficiencies across our extensive platform of operations. At the location level, we also enjoy economies of scale as our hospitals are often larger (more beds) than industry average. Also, Encompass targets a certain patient density in the markets it serves which contributes to a lower cost per visit than competing publicly-held home health providers. In addition, our proprietary management reporting system aggregates data from each of our key business systems into a comprehensive reporting package used by the management teams in our hospitals as well as executive management. This system allows users to analyze data and trends and create custom reports on a timely basis. Likewise, Encompass utilizes Homecare Homebase SM , an industry-leading information system, to provide home-based care with an emphasis on efficiency and cost effectiveness.

With a significant presence in both facility-based and home-based healthcare services, we have the opportunity to take advantage of the broader industry focus on reducing costs. In an effort to mitigate healthcare costs, third-party payors, including Medicare, have increasingly encouraged the treatment of patients in lower-cost care settings. Home health and hospice services, which typically have significantly lower cost structures than facility-based care settings, have increasingly been serving larger populations of higher acuity patients than in the past. These home-based services provide a cost-effective alternative to facility-based care where patient acuities do not require a hospital stay. Lastly, the combination of home health and hospice with our existing inpatient rehabilitative healthcare services provides us with an increased opportunity to participate in more coordinated care delivery models, such as accountable care organizations ("ACOs") and bundled payment arrangements. For additional discussion of our participation in these models, including the Bundled Payments for Care Improvement initiative and the Comprehensive Care for Joint Replacement payment model, see Item 1A, *Risk Factors,* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , "Executive Overview."

- Strong Cash Flow Generation and Balance Sheet . We have a proven track record of generating strong cash flows from operations that have allowed us to successfully implement our growth strategy and make significant shareholder value-enhancing distributions. As of December 31, 2015, we have a flexible balance sheet, no significant debt maturities prior to 2020, and ample availability under our revolving credit facility, which along with the cash flows generated from operations should, we believe, provide sufficient support for our business strategy.

- Technology-Enabled Processes . As a market leader in post-acute healthcare services, we have devoted substantial effort and expertise to leveraging technology to improve patient care and operating efficiencies. We have developed and implemented information technology, such as our rehabilitation-specific electronic clinical information system ("CIS") and our internally developed management reporting system described above, which we then leverage to enhance our clinical and business processes. To date, we have installed the CIS in 83 hospitals, and we expect to complete installation in our existing hospitals by the end of 2017. We believe the CIS will improve patient care and safety, streamline operating efficiencies, and enhance staff recruitment and retention, making it a key competitive differentiator.

  Encompass internally developed, and is now a licensee of, Homecare Homebase, a comprehensive information platform that allows home health providers to process clinical, compliance, and marketing information as well as analyze data and trends for management purposes using custom reports on a timely basis. The Encompass team's knowledge of Homecare Homebase as well as the thorough integration of it into the operating culture allow Encompass to maximize the system's capability to drive superior clinical, operational, and financial outcomes.

  In the context of the evolving healthcare delivery system, we believe our information systems that allow us to collect, analyze, and share information on a timely basis make us an ideal partner for other healthcare providers in a coordinated care delivery environment. Systems such as the CIS set the stage for interoperability with referral sources and health information exchanges. Of note, Encompass has a technology platform designed to manage the entire patient work flow and provide valuable data for health system, payor and ACO partners. Encompass is currently the exclusive preferred home health provider in an ACO serving approximately 20,000 patients and is exploring several other participation opportunities.

*Patients and Demographic Trends*

Demographic trends, such as population aging, should increase long-term demand for facility-based and home-based post-acute care services. While we treat patients of all ages, most of our patients are 65 and older, and the number of Medicare enrollees is expected to grow approximately 3% per year for the foreseeable future. We believe the demand for facility-based and home-based post-acute care services will continue to increase as the U.S. population ages and life expectancies increase. We believe these factors align with our strengths in, and focus on, post-acute services. In addition, we believe we can address the demand for facility-based and home-based post-acute care services in markets where we currently do not have a presence by constructing or acquiring new hospitals and by acquiring or opening home health and hospice agencies in that extremely fragmented industry.

*Strategy*

Our 2015 strategy focused on the following priorities:

- continuing to provide high-quality, cost-effective care to patients and improving patient satisfaction in our existing markets;
- achieving organic growth at our existing hospitals, home health agencies, and hospice agencies;
- expanding our services to more patients who require post-acute healthcare services by constructing and acquiring new hospitals in new markets and acquiring and opening home health and hospice agencies in new markets;
- continuing our shareholder value-enhancing strategies such as common stock dividends and repurchases of our common stock; and
- positioning the Company for continued success in the evolving healthcare delivery system. This preparation included continuing the installation of our electronic clinical information system in our hospitals which allows for interfaces with all major acute care electronic medical record systems and health information exchanges and participation in bundling projects and ACOs.

Total hospital discharges grew 10.9% from 2014 to 2015. Our same-store discharges grew 3.2% during 2015 compared to 2014. Although we did not operate Encompass' home health agencies in 2014, those agencies operated by Encompass for more than a year experienced strong admissions growth in 2015. In addition, we entered new inpatient rehabilitation markets and enhanced our geographic coverage in existing markets in 2015 by adding 14 new hospitals with 1,224 licensed beds to our portfolio. We also added a net of 85 licensed beds to our existing hospitals. Likewise, we built upon our December 31, 2014 acquisition of Encompass by adding another 59 home health and 7 hospice locations.

Our quality and outcome measures remained above both inpatient rehabilitation and home health industry averages. Not only did we treat more patients and enhance outcomes, we did so in a cost-effective manner. For additional discussion of the pursuit of our 2015 strategic priorities, including operating results, growth, and shareholder value-enhancing achievements, as well as our 2016 strategy and business outlook, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , "Executive Overview," "Results of Operations," and "Liquidity and Capital Resources."

*Employees*

As of December 31, 2015, we employed approximately 27,110 individuals, of whom approximately 16,533 were full-time employees, in our inpatient rehabilitation business and approximately 7,590 individuals, of whom approximately 4,625 were full-time employees, in the Encompass home health and hospice business. We are subject to various state and federal laws that regulate wages, hours, benefits, and other terms and conditions relating to employment. Except for approximately 62 employees at one hospital (about 16% of that hospital's workforce), none of our employees are represented by a labor union as of December 31, 2015 . Like most healthcare providers, our labor costs are rising faster than the general inflation rate. In some markets, the lack of availability of medical personnel is a significant operating issue facing healthcare providers. To address this challenge, we will continue to focus on maintaining the competitiveness of our compensation and benefit programs and improving our recruitment, retention, and productivity. Shortage of nurses and other medical personnel, including therapists, may, from time to time, require us to increase utilization of more expensive temporary personnel, which we refer to as "contract labor."

*Competition*

Inpatient Rehabilitation . The inpatient rehabilitation industry is highly fragmented, and we have no single, similar direct competitor. Our inpatient rehabilitation hospitals compete primarily with rehabilitation units, many of which are within acute care hospitals, in the markets we serve. For a list of our markets by state, see the table in Item 2, *Properties.* Smaller privately held companies compete with us primarily in select geographic markets in Texas and the West. In addition, there are two public companies that are primarily focused on other post-acute care services but also own or operate between 15 and 20 inpatient rehabilitation facilities each, one of which also manages the operations of inpatient rehabilitation facilities as part of its business model. Other providers of post acute-care services may attempt to become competitors in the future. For example, over the past few years, the number of nursing homes marketing themselves as offering certain rehabilitation services has increased even though nursing homes are not required to offer the same level of care, or be licensed, as hospitals. Also, acute care hospitals, including those owned or operated by large public companies or not-for-profits that have dominant positions in specific markets, may choose to expand their post-acute rehabilitation services. The primary competitive factors in any given market include the quality of care and service provided, the treatment outcomes achieved, and the relationship with the acute

care hospitals in the market, including physician-owned providers. However, the previously enacted ban on new, or expansion of existing, physician-owned hospitals should limit to some degree that competitive factor going forward unless Congress acts to repeal the ban. See the "Regulation—Relationships with Physicians and Other Providers" section below for further discussion. Additionally, for a discussion regarding the effects of certificate of need requirements on competition in some states, see the "Regulation—Certificates of Need" section below.

Home Health and Hospice . Similarly, the home health and hospice services industry is highly competitive and fragmented. There are currently more than 12,400 home health agencies and approximately 4,000 hospice agencies nationwide certified to participate in Medicare. Encompass is the fourth largest provider of Medicare-certified skilled home health services in the United States. Encompass' primary competition comes from locally owned private home health companies or acute-care hospitals with adjunct home health services and typically varies from market to market. Providers of home health and hospice services include both not-for-profit and for-profit organizations. There are six public companies, including us, with significant presences in the home health industry, the largest of which operates long-term acute care hospitals, inpatient rehabilitation facilities, nursing centers and assisted living facilities. The primary competitive factors in any given market include the quality of care and service provided, the treatment outcomes achieved, and Encompass's relationship and reputation with the acute care hospitals, physicians or other referral sources in the market. The ability to work as part of an integrated care delivery model with other providers is likely to become an increasingly important factor in competition. Competing companies may also offer varying home care services. Home health providers with scale, which include a number of other public companies, may have competitive advantages, including professional management, efficient operations, sophisticated information systems, brand recognition, and large referral bases. For a list of the Encompass home health markets by state, see the table in Item 2, *Properties*.

**Regulatory and Reimbursement Challenges**

Healthcare has always been a highly regulated industry. Currently, the industry is facing many well-publicized regulatory and reimbursement challenges. The industry is also facing uncertainty associated with the efforts, primarily arising from initiatives included in the Patient Protection and Affordable Care Act (as subsequently amended, the "2010 Healthcare Reform Laws"), to identify and implement workable coordinated care and integrated payment delivery models. In January 2015, the United States Department of Health and Human Services ("HHS") announced it had set various goals with respect to tying Medicare reimbursements to alternative payment models and value-based purchasing. Specifically, HHS set goals of tying 30 percent of traditional, or fee-for-service, Medicare payments to quality or value through alternative payment models, such as ACOs or bundled payment arrangements, by the end of 2016 and tying 50 percent of payments to those models by the end of 2018. HHS also set goals of tying 85 and 90 percent of traditional Medicare payments to quality or value by the end of 2016 and 2018, respectively, through programs such as those that include financial incentives for reducing acute care hospital readmissions.

Successful healthcare providers are those who provide high-quality, cost-effective care and have the ability to adjust to changes in the regulatory and operating environments. We believe we have the necessary capabilities — scale, infrastructure, balance sheet, and management — to adapt to and succeed in a highly regulated industry, and we have a proven track record of doing so. For more in-depth discussion of the primary challenges and risks related to our business, particularly the changes in Medicare reimbursement (including the impact of announced alternative payment models and value-based purchasing initiatives), increased federal compliance and enforcement burdens, and changes to our operating environment resulting from healthcare reform, see "Regulation" below in this section as well as Item 1A, *Risk Factors,* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , "Executive Overview—Key Challenges."

**Sources of Revenues**

We receive payment for patient care services from the federal government (primarily under the Medicare program), managed care plans and private insurers, and, to a considerably lesser degree, state governments (under their respective Medicaid or similar programs) and directly from patients. Revenues and receivables from Medicare are significant to our operations. In addition, we receive relatively small payments for non-patient care activities from various sources.

We offer discounts from established charges to certain group purchasers of healthcare services that are included in "Managed care and other discount plans" in the tables below, including private insurance companies, employers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other managed care plans. Medicare, through its Medicare Advantage program, offers Medicare-eligible individuals an opportunity to participate in a managed care plan. Revenues from Medicare and Medicare Advantage represent approximately 82% of total revenues.

Patients are generally not responsible for the difference between established gross charges and amounts reimbursed for such services under Medicare, Medicaid, and other private insurance plans, HMOs, or PPOs but are responsible to the extent of

any exclusions, deductibles, copayments, or coinsurance features of their coverage. Collection of amounts due from individuals is typically more difficult than from governmental or third-party payors. The amount of these exclusions, deductibles, copayments, and coinsurance has been increasing each year but is not material to our business or results of operations.

The following tables identify the sources and relative mix of our revenues for the periods stated for each of our business segments:

**Inpatient Rehabilitation**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Medicare | 73.2% | 73.9% | 74.2% |
| Managed care and other discount plans, including Medicare Advantage | 19.0% | 18.8% | 18.7% |
| Medicaid | 2.5% | 1.8% | 1.2% |
| Other third-party payors | 2.0% | 1.8% | 1.8% |
| Workers' compensation | 1.1% | 1.2% | 1.3% |
| Patients | 0.7% | 1.0% | 1.1% |
| Other income | 1.5% | 1.5% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% |

**Home Health and Hospice**

| | For the Year Ended December 31, 2015 [(1)] |
|---|---|
| Medicare | 83.7% |
| Managed care and other discount plans, including Medicare Advantage | 10.7% |
| Medicaid | 5.5% |
| Other third-party payors | —% |
| Workers' compensation | —% |
| Patients | 0.1% |
| Other income | —% |
| Total | 100.0% |

(1) We began reporting for our home health and hospice segment in the first quarter of 2015 as a result of the acquisition of Encompass on December 31, 2014. For 2013 and 2014, the home health and hospice business was not material to our consolidated net operating revenues.

*Medicare Reimbursement*

Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons, and persons with end-stage renal disease. Medicare, through statutes and regulations, establishes reimbursement methodologies and rates for various types of healthcare facilities and services. Each year, the Medicare Payment Advisory Commission (“MedPAC”), an independent agency that advises Congress on issues affecting Medicare, makes payment policy recommendations to Congress for a variety of Medicare payment systems including, among others, the inpatient rehabilitation facility prospective payment system (the “IRF-PPS”), the home health prospective payment system (“HH-PPS”) and the hospice prospective payment system (the “Hospice-PPS”). Congress is not obligated to adopt MedPAC recommendations, and, based on outcomes in previous years, there can be no assurance Congress will adopt MedPAC’s recommendations in a given year. For example, in recent years, Congress has not adopted any of the recommendations on the annual market basket update to Medicare payment rates under the IRF-PPS, which updates are discussed in greater detail below. However, MedPAC’s recommendations have, and may in the future, become the basis for subsequent legislative or regulatory action.

The Medicare statutes and regulations are subject to change from time to time. For example, in March 2010, President Obama signed the 2010 Healthcare Reform Laws. With respect to Medicare reimbursement, the 2010 Healthcare Reform Laws provided for certain reductions to healthcare providers’ annual market basket updates. In August 2011, President Obama signed

into law the Budget Control Act of 2011, as amended by the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, the Protecting Access to Medicare Act of 2014, and the Bipartisan Budget Act of 2015, that provided for an automatic 2% reduction, or "sequestration," of Medicare program payments for all healthcare providers. Sequestration took effect April 1, 2013 and will continue through 2025 unless Congress and the President take further action. Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both, in 2016 and beyond.

From time to time, Medicare reimbursement methodologies and rates can be further modified by HHS's Centers for Medicare & Medicaid Services ("CMS"). In some instances, these modifications can have a substantial impact on existing healthcare providers. In accordance with Medicare laws and statutes, CMS makes annual adjustments to Medicare payment rates in many prospective payment systems, including the IRF-PPS and HH-PPS, by what is commonly known as a "market basket update." CMS may take other regulatory action affecting rates as well. For example, under the 2010 Healthcare Reform Laws, CMS requires inpatient rehabilitation facilities ("IRFs") to submit data on certain quality of care measures for the IRF Quality Reporting Program. A facility's failure to submit the required quality data results in a two percentage point reduction to that facility's annual market basket increase factor for payments made for discharges in the subsequent Medicare fiscal year. Hospitals began submitting quality data to CMS in October 2012. All of our hospitals met the reporting deadlines occurring on or before December 31, 2014 resulting in no corresponding reimbursement reductions for fiscal years 2015 and 2016. Similarly, home health and hospice agencies are also required to submit quality data to CMS each year, and the failure to do so in accordance with the rules will result in a two percentage point reduction in their market basket update. To date, none of Encompass's home health and hospice agencies have incurred a reduction in their reimbursement rate.

We cannot predict the adjustments to Medicare payment rates Congress or CMS may make in the future. Congress, MedPAC, and CMS will continue to address reimbursement rates for a variety of healthcare settings. Any additional downward adjustment to rates for the types of facilities we operate and services we provide could have a material adverse effect on our business, financial position, results of operations, and cash flows. For additional discussion of the risks associated with our concentration of revenues from the federal government or with potential changes to the statutes or regulations governing Medicare reimbursement, see Item 1A, *Risk Factors,* and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , "Executive Overview—Key Challenges."

Although reductions or changes in reimbursement from governmental or third-party payors and regulatory changes affecting our business represent one of the most significant challenges to our business, our operations are also affected by other rules and regulations that indirectly affect reimbursement for our services, such as data coding rules and patient coverage rules and determinations. For example, on October 1, 2015, healthcare providers were required to begin using the updated and expanded diagnosis and procedure codes of the International Classification of Diseases 10 th Edition ("ICD-10") in connection with Medicare billings. We have not experienced any significant disruptions to the billing process or Medicare payments as result of the implementation of ICD-10. Likewise, Medicare providers like us can be negatively affected by the adoption of coverage policies, either at the national or local level, that determine whether an item or service is covered and under what clinical circumstances it is considered to be reasonable and necessary. For example, current CMS coverage rules require inpatient rehabilitation services to be ordered by a physician and be coordinated by an interdisciplinary team. The interdisciplinary team must meet weekly to review patient status and make any needed adjustments to the individualized plan of care. Qualified personnel must provide the rehabilitation nursing, physical therapy, occupational therapy, speech-language pathology, social services, psychological services, and prosthetic and orthotic services that may be needed. For individual claims, Medicare contractors make coverage determinations regarding medical necessity which can represent more restrictive interpretations of the CMS coverage rules. We cannot predict how future CMS coverage rule interpretations or any new local coverage determinations will affect us.

In the ordinary course, Medicare reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals as well as home health and hospice agencies, are subject to audit from time to time by governmental payors and their agents, such as the Medicare Administrative Contractors ("MACs") that act as fiscal intermediaries for all Medicare billings and insurance carriers, as well as the OIG, CMS, and state Medicaid programs. In addition to those audits conducted by existing MACs, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. Some contractors are paid a percentage of the overpayments recovered. One type of audit contractor, the Recovery Audit Contractors ("RACs"), began post-payment audit processes in late 2009 for providers in general. The RACs receive claims data directly from MACs on a monthly or quarterly basis and are authorized to review claims up to three years from the date a claim was paid. Beginning May 15, 2015, CMS limited the recovery auditor look back period to six months from the date of service, in cases where the hospital submits the claim within three months of the date of service. The 2010 Healthcare Reform Laws extended the RAC program to Medicare, Parts C and D, and Medicaid. RAC audits initially focused on coding errors. CMS subsequently expanded the program to medical necessity reviews for IRFs.

CMS has also established contractors known as the Zone Program Integrity Contractors (“ZPICs”). These contractors are successors to the Program Safeguard Contractors and conduct audits with a focus on potential fraud and abuse issues. Like the RACs, the ZPICs conduct audits and have the ability to refer matters to the United States Department of Health and Human Services Office of Inspector General (the “HHS-OIG”) or the United States Department of Justice. Unlike RACs, however, ZPICs do not receive a specific financial incentive based on the amount of the error.

As a matter of course, we undertake significant efforts through training and education to ensure compliance with coding and medical necessity coverage rules. However, despite our belief that our coding and assessment of patients are accurate, audits may lead to assertions that we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. We cannot predict when or how these audit programs will affect us. For additional discussion of these audits and the risks associated with them, see Item 1A, *Risk Factors* , and Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations* , “Executive Overview—Key Challenges.”

A basic summary of current Medicare reimbursement in our business segments follows:

Inpatient Rehabilitation . As discussed above, our hospitals receive fixed payment reimbursement amounts per discharge under IRF-PPS based on certain rehabilitation impairment categories established by HHS. In order to qualify for reimbursement under IRF-PPS, our hospitals must comply with various Medicare rules and regulations including documentation and coverage requirements, or specifications as to what conditions must be met to qualify for reimbursement. These requirements relate to, among other things, pre-admission screening, post-admission evaluations, and individual treatment planning that all delineate the role of physicians in ordering and overseeing patient care. For example, a physician must admit each patient and in doing so determine that the patient’s IRF treatment is reasonable and necessary. Also, each patient admitted to an IRF must be deemed by a physician to be medically stable and able to tolerate a minimum of three hours of therapy per day. Once in an IRF, patients must have nursing care available 24 hours, each day of the week.

Under IRF-PPS, CMS is required to adjust the payment rates based on a market basket index. Beginning in fiscal year 2016, CMS began implementing an inpatient IRF-specific market basket. The annual market basket update is designed to reflect changes over time in the prices of a mix of goods and services provided by rehabilitation hospitals and hospital-based inpatient rehabilitation units. In setting annual market basket updates, CMS uses data furnished by the Bureau of Labor Statistics for price proxy purposes, primarily in three categories: Producer Price Indexes, Consumer Price Indexes, and Employment Cost Indexes. With IRF-PPS, our hospitals retain the difference, if any, between the fixed payment from Medicare and their operating costs. Thus, our hospitals benefit from being cost-effective providers.

Over the last several years, changes in regulations governing inpatient rehabilitation reimbursement have created challenges for inpatient rehabilitation providers. Many of these changes have resulted in limitations on, and in some cases, reductions in, the levels of payments to healthcare providers. For example, in 2004, CMS narrowed its rule, known as the “75% Rule,” stipulating that to qualify as an inpatient rehabilitation hospital under the Medicare program a facility must show that a certain percentage of its patients are treated for at least one of a specified and limited list of medical conditions. Under the 75% Rule, any inpatient rehabilitation hospital that failed to meet its requirements would be subject to prospective reclassification as an acute care hospital, with lower acute care payment rates for rehabilitative services. On December 29, 2007, the Medicare, Medicaid and State Children’s Health Insurance Program (SCHIP) Extension Act of 2007 (the “2007 Medicare Act”) was signed, setting the compliance threshold at 60% instead of 75% and allowing hospitals to continue using a patient’s secondary medical conditions, or “comorbidities,” to determine whether a patient qualifies for inpatient rehabilitative care under the rule. The modification of the compliance threshold in 2004 significantly reduced the total number of Medicare IRF discharges, but since setting the 60% threshold, the number of discharges has grown. In another example, the 2007 Medicare Act included an elimination of the IRF-PPS market basket adjustment for the period from April 1, 2008 through September 30, 2009 causing a reduction in the pricing of services eligible for Medicare reimbursement, or a Medicare pricing “roll-back,” which resulted in a decrease in actual reimbursement dollars per discharge despite increases in costs.

On July 31, 2014, CMS released its notice of final rulemaking for the fiscal year 2015 IRF-PPS. This rule was effective for Medicare discharges between October 1, 2014 and September 30, 2015. The pricing changes in this rule included a 2.9% market basket update that was reduced by 0.2% to 2.7% under the requirements of the 2010 Healthcare Reform Laws, as well as other pricing changes that impact our hospital-by-hospital base rate for Medicare reimbursement. The 2010 Healthcare Reform Laws also require the market basket update to be reduced by a productivity adjustment on an annual basis. The productivity adjustments equal the trailing 10-year average of changes in annual economy-wide private nonfarm business multi-factor productivity. The productivity adjustment effective October 1, 2014 decreased the market basket update by 50 basis points.

On July 31, 2015, CMS released its notice of final rulemaking for fiscal year 2016 IRF-PPS (the "2016 IRF Rule"). The 2016 IRF Rule will implement a net 1.7% market basket increase effective for discharges between October 1, 2015 and September 30, 2016, calculated as follows:

| | |
|---|---|
| Market basket update | 2.4% |
| Healthcare reform reduction | 20 basis points |
| Productivity adjustment reduction | 50 basis points |

The 2016 IRF Rule also includes other pricing changes that impact our hospital-by-hospital base rate for Medicare reimbursement. Such changes include, but are not limited to, revisions to the wage index values, changes to designations between rural and urban facilities, and updates to the outlier fixed-loss threshold. The final rule also continues the freeze to the update to the IRF-PPS facility-level rural adjustment factor, low-income patient factor, and teaching status adjustment factors. Based on our analysis which utilizes, among other things, the acuity of our patients over the 12-month period prior to the rule's release and incorporates other adjustments included in the 2016 IRF Rule, we believe the 2016 IRF Rule will result in a net increase to our Medicare payment rates of approximately 1.6% effective October 1, 2015, prior to the impact of sequestration.

Additionally, the 2016 IRF Rule contains changes that could affect us in future years. For example, pursuant to the Improving Medicare Post-Acute Care Transformation Act of 2014 (the "IMPACT Act"), CMS adopted six additional quality reporting measures, the reporting of which beginning on October 1, 2016, will require additional time and expense, and could affect reimbursement beginning October 1, 2017. CMS also adopted an IRF-specific market basket that could, in a given year, result in a higher or lower pricing update than the current market basket methodologies.

Unlike our inpatient services, our outpatient services are primarily reimbursed under the physician fee schedule of Medicare Part B. Medicare reimbursement for outpatient services are subject to an annual outpatient therapy cap and a therapy cap exception process. On October 30, 2015, CMS released its final notice of rulemaking for the payment policies under the physician fee schedule and other revisions to Part B for calendar year 2016. The provisions of this rule, including the updates to the fee schedule, are not material to us.

Home Health . Medicare pays home health benefits for patients discharged from a hospital or patients otherwise suffering from chronic conditions that require ongoing but intermittent skilled care. As a condition of participation under Medicare, patients must be homebound (meaning unable to leave their home without a considerable and taxing effort), require intermittent skilled nursing, physical therapy or speech therapy services, or have a continuing need for occupational therapy, and receive treatment under a plan of care established and periodically reviewed by a physician. The 2010 Healthcare Reform Laws mandate that, prior to certifying a patient's eligibility for the home health benefit, the certifying physician must document that he or she or a qualifying nurse practitioner has had a face-to-face encounter with the patient. Medicare pays home health providers under the HH-PPS for each 60-day period of care for each patient. Payments are adjusted based on each patient's condition and clinical treatment. This is referred to as the case-mix adjustment. In addition to the case-mix adjustment, payments for periods of care may be adjusted for other reasons, including unusually large (outlier) costs, low-utilization patients that require four or fewer visits, and geographic differences in wages. Payments are also made for non-routine medical supplies that are used in treatment. Home health providers receive either 50% or 60% of the estimated base payment for the full 60 days for each patient upon submission of the initial claim. The estimate is based on the patient's condition and treatment needs. The provider receives the remaining portion of the payment after the 60-day treatment period, subject to any applicable adjustments. If a patient remains eligible for care after that period, a new 60-day treatment period may begin. There are currently no limits to the number of home health treatment periods an eligible Medicare patient may receive.

On October 30, 2014, CMS released its notice of final rulemaking for the calendar year 2015 HH-PPS. CMS estimated the rule would cut Medicare payments to home health agencies by 0.3% in 2015. Specifically, while the rule provided for a market basket update of 2.6%, that update was offset by a 2.4% rebasing adjustment reduction (the second year of a four-year phase-in) and a productivity adjustment reduction of 50 basis points.

The final rule also addressed a number of policy proposals. Notably, CMS modified the home health face-to-face encounter documentation requirements, including eliminating the narrative as part of the certification of eligibility and providing more flexibility in procedures for obtaining documentation supporting patient eligibility.

On October 29, 2015, CMS released its notice of final rulemaking for calendar year 2016 for home health agencies under the HH-PPS (the "2016 HH Rule"). Specifically, while the rule provides for a market basket update of 2.3%, that update is offset by a 2.4% rebasing adjustment reduction (the third year of a four-year phase-in), a productivity adjustment reduction of 40 basis points, and a nominal case-mix coding intensity reduction of 90 basis points. The 2016 HH Rule also includes other pricing changes, such as a reduction to the case-mix weights for certain cases, that impact our Medicare reimbursement. Based

on our analysis, we believe the 2016 HH Rule will result in a net decrease to our Medicare home health payment rates of approximately 1.7% effective for episodes ending in calendar year 2016, before sequestration.

As previously noted, the HH-PPS provides that quality reporting requirements must be satisfied in order for agencies to avoid a 2% reduction in their annual HH-PPS payment update percentage. All home health agencies must submit both admission and discharge outcome and assessment information sets, or "OASIS assessments," for a minimum of 70% of all patients with episodes of care occurring during the reporting period starting July 1, 2015. In the 2016 HH Rule, CMS increased the minimum reporting threshold to 80% for episodes occurring between July 1, 2016 and June 30, 2017, and to 90% for episodes occurring from July 1, 2017 and thereafter. We do not expect, based on our agencies' current OASIS submission rates, to experience a material impact from these changes.

In addition, the 2016 HH Rule establishes a Home Health Value-Based Purchasing model in nine states that will include five performance years beginning January 1, 2016 and test whether incentives for better care can improve outcomes in the delivery of home health services. The model would apply a reduction or increase to current Medicare-certified home health agency payments, depending on quality performance, made to agencies in those nine states. For additional discussion of this model, see Item 1A, *Risk Factors* , and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , "Executive Overview—Key Challenges."

Hospice . Medicare pays hospice benefits for patients with life expectancies of six months or less, as documented by the patient's physician(s). Under Medicare rules, patients seeking hospice benefits must agree to forgo curative treatment for their terminal medical conditions. For each day a patient elects hospice benefits, Medicare pays an adjusted daily rate based on patient location, and payments represent a prospective per diem amount tied to one of four different categories or levels of care: routine home care, continuous home care, inpatient respite care, and general inpatient care. Medicare hospice reimbursements to each provider are also subject to two annual caps, one limiting total hospice payments based on the average annual payment per beneficiary and another limiting payments based on the number of days of inpatient care billed by the hospice provider. There are currently no limits to the number of hospice benefit periods an eligible Medicare patient may receive, and a patient may revoke the benefit at any time.

On July 31, 2015, CMS released its notice of final rulemaking for fiscal year 2016 for hospice agencies under the hospice-PPS (the "2016 Hospice Rule"). The final rule would impact hospice payments between October 1, 2015 and September 30, 2016. Specifically, the rule provides for a market basket update of 2.4%, which was reduced by 30 basis points under the requirements of the 2010 Healthcare Reform Laws and a productivity adjustment of 50 basis points, as well as other pricing changes including a 70 basis point reduction for the final year of a seven-year phase-out of a wage index budget neutrality adjustment factor and a 20 basis point increase to implement a new wage index. The provisions of the 2016 Hospice Rule were not material to us.

For additional discussion of matters and risks related to reimbursement, see Item 1A, *Risk Factors* .

*Managed Care and Other Discount Plans*

We offer discounts from established charges to certain large group purchasers of healthcare services, including Medicare Advantage, managed care plans, private insurance companies, and third-party administrators. Managed care contracts typically have terms between one and three years, although we have a number of managed care contracts that automatically renew each year (with pre-defined rate increases) unless a party elects to terminate the contract. In 2015 , typical rate increases for our inpatient rehabilitation contracts ranged from 2-4% and for our home health and hospice contracts ranged from 0-2%. We cannot provide any assurance we will continue to receive increases in the future. Our managed care staff focuses on establishing and re-negotiating contracts that provide equitable reimbursement for the services provided.

*Medicaid Reimbursement*

Medicaid is a jointly administered and funded federal and state program that provides hospital and medical benefits to qualifying individuals who are deemed unable to afford healthcare. As the Medicaid program is administered by the individual states under the oversight of CMS in accordance with certain regulatory and statutory guidelines, there are substantial differences in reimbursement methodologies and coverage policies from state to state. Many states have experienced shortfalls in their Medicaid budgets and are implementing significant cuts in Medicaid reimbursement rates. Additionally, certain states control Medicaid expenditures through restricting or eliminating coverage of certain services. Continuing downward pressure on Medicaid payment rates could cause a decline in that portion of our *Net operating revenues* . However, for the year ended December 31, 2015, Medicaid payments represented only 3.0% of our consolidated *Net operating revenues* . In certain states in which we operate we are experiencing an increase in Medicaid patients, likely the result of expanded coverage consistent with

the intent of the 2010 Healthcare Reform Laws. For additional discussion, see Item 1A, *Risk Factors* , "Changes in our payor mix or the acuity of our patients could adversely impact our revenues or our profitability."

*Cost Reports*

Because of our participation in Medicare, Medicaid, and certain Blue Cross and Blue Shield plans, we are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require the submission of annual cost reports covering the revenue, costs, and expenses associated with the services provided by inpatient hospital, home health, and hospice providers to Medicare beneficiaries and Medicaid recipients. These annual cost reports are subject to routine audits which may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. These audits are used for determining if any under- or over-payments were made to these programs and to set payment levels for future years. Medicare also makes retroactive adjustments to payments for certain low-income patients after comparing subsequently published statistical data from CMS to the cost report data. We cannot predict what retroactive adjustments, if any, will be made, but we do not anticipate such adjustments would have a material impact on us.

**Regulation**

The healthcare industry is subject to significant federal, state, and local regulation that affects our business activities by controlling the reimbursement we receive for services provided, requiring licensure or certification of our operations, regulating our relationships with physicians and other referral sources, regulating the use of our properties, and controlling our growth. We are also subject to the broader federal and state regulations that prohibit fraud and abuse in the delivery of healthcare services. As a healthcare provider, we are subject to periodic audits, examinations and investigations conducted by, or at the direction of, government investigative and oversight agencies. Violations of the applicable federal and state healthcare regulations can result in a provider's exclusion from participation in government reimbursement programs and in substantial civil and criminal penalties.

We undertake significant effort and expense to provide the medical, nursing, therapy, and ancillary services required to comply with local, state, and federal regulations, as well as, for most facilities, accreditation standards of The Joint Commission (formerly known as the Joint Commission on Accreditation of Healthcare Organizations) and, for some facilities, the Commission on Accreditation of Rehabilitation Facilities.

We maintain a comprehensive compliance program that is designed to meet or exceed applicable federal guidelines and industry standards. The program is intended to monitor and raise awareness of various regulatory issues among employees and to emphasize the importance of complying with governmental laws and regulations. As part of the compliance program, we provide annual compliance training to our employees and encourage all employees to report any violations to their supervisor or through a toll-free telephone hotline.

*Licensure and Certification*

Healthcare facility construction and operation are subject to numerous federal, state, and local regulations relating to, among other things, the adequacy of medical care, equipment, personnel, operating policies and procedures, acquisition and dispensing of pharmaceuticals and controlled substances, infection control, maintenance of adequate records and patient privacy, fire prevention, and compliance with building codes and environmental protection laws. Our hospitals are subject to periodic inspection and other reviews by governmental and non-governmental certification authorities to ensure continued compliance with the various standards necessary for facility licensure. All of our inpatient hospitals are currently required to be licensed.

In addition, hospitals must be certified by CMS to participate in the Medicare program and generally must be certified by Medicaid state agencies to participate in Medicaid programs. Once certified by Medicare, hospitals undergo periodic on-site surveys and revalidations in order to maintain their certification. All of our inpatient hospitals participate in the Medicare program.

Encompass agencies are each licensed under applicable law, certified by CMS for participation in the Medicare program, and generally certified by the applicable state Medicaid agencies to participate in those programs.

Failure to comply with applicable certification requirements may make our hospitals and agencies, as the case may be, ineligible for Medicare or Medicaid reimbursement. In addition, Medicare or Medicaid may seek retroactive reimbursement from noncompliant providers or otherwise impose sanctions for noncompliance. Non-governmental payors often have the right to terminate provider contracts if the provider loses its Medicare or Medicaid certification.

The 2010 Healthcare Reform Laws added new screening requirements and associated fees for all Medicare providers. The screening must include a licensure check and may include other procedures such as fingerprinting, criminal background checks, unscheduled and unannounced site visits, database checks, and other screening procedures prescribed by CMS.

We have developed operational systems to oversee compliance with the various standards and requirements of the Medicare program and have established ongoing quality assurance activities; however, given the complex nature of governmental healthcare regulations, there can be no assurance Medicare, Medicaid, or other regulatory authorities will not allege instances of noncompliance. A determination by a regulatory authority that a facility is not in compliance with applicable requirements could also lead to the assessment of fines or other penalties, loss of licensure, exclusion from participation in Medicare and Medicaid, and the imposition of requirements that an offending facility takes corrective action.

*Certificates of Need*

In some states and U.S. territories where we operate, the construction or expansion of facilities, the acquisition of existing facilities or agencies, or the introduction of new beds or inpatient, home health, and hospice services may be subject to review by and prior approval of state regulatory bodies under a "certificate of need," or "CON," law. As of December 31, 2015, approximately 52% of our licensed beds and 19% of our home health and hospice locations are located in states or U.S. territories that have CON laws. CON laws often require a reviewing agency to determine the public need for additional or expanded healthcare facilities and services. These laws also generally require approvals for capital expenditures involving inpatient rehabilitation hospitals, if such capital expenditures exceed certain thresholds. In addition, CON laws in some states require us to abide by certain charity care commitments as a condition for approving a CON. Any time a CON is required, we must obtain it before acquiring, opening, reclassifying, or expanding a healthcare facility, starting a new healthcare program, or opening a new home health or hospice agency.

We potentially face opposition any time we initiate a CON project or seek to acquire an existing facility, agency, or CON. This opposition may arise either from competing national or regional companies or from local hospitals, agencies, or other providers which file competing applications or oppose the proposed CON project. Opposition to our applications may delay or prevent our future addition of beds, hospitals, or agencies in given markets or increase our costs in seeking those additions. The necessity for these approvals serves as a barrier to entry and has the potential to limit competition, including in markets where we hold a CON and a competitor is seeking an approval. We have generally been successful in obtaining CONs or similar approvals when required, although there can be no assurance we will achieve similar success in the future, and the likelihood of success varies by locality and state.

*False Claims*

The federal False Claims Act prohibits the knowing presentation of a false claim to the United States government and provides for penalties equal to three times the actual amount of any overpayments plus up to $11,000 per claim. Beginning no later than August 1, 2016, federal civil penalties will be adjusted to account for inflation each year. In addition, the False Claims Act allows private persons, known as "relators," to file complaints under seal and provides a period of time for the government to investigate such complaints and determine whether to intervene in them and take over the handling of all or part of such complaints. Because we perform thousands of similar procedures a year for which we are reimbursed by Medicare and other federal payors and there is a relatively long statute of limitations, a billing error or cost reporting error could result in significant civil or criminal penalties under the False Claims Act. Many states have also adopted similar laws relating to state government payments for healthcare services. The 2010 Healthcare Reform Laws amended the federal False Claims Act to expand the definition of false claim, to make it easier for the government to initiate and conduct investigations, to enhance the monetary reward to relators where prosecutions are ultimately successful, and to extend the statute of limitations on claims by the government. The federal government has become increasingly aggressive in asserting that incidents of erroneous billing or record keeping represent a violation of the False Claims Act. For additional discussion, see Item 1A, *Risk Factors* , and Note 17, *Contingencies and Other Commitments* , to the accompanying consolidated financial statements.

*Relationships with Physicians and Other Providers*

Anti-Kickback Law . Various state and federal laws regulate relationships between providers of healthcare services, including management or service contracts and investment relationships. Among the most important of these restrictions is a federal law prohibiting the offer, payment, solicitation, or receipt of remuneration by individuals or entities to induce referrals of patients for services reimbursed under the Medicare or Medicaid programs (the "Anti-Kickback Law"). The 2010 Healthcare Reform Laws amended the federal Anti-Kickback Law to provide that proving violations of this law does not require proving actual knowledge or specific intent to commit a violation. Another amendment made it clear that Anti-Kickback Law violations can be the basis for claims under the False Claims Act. These changes and those described above related to the False Claims Act, when combined with other recent federal initiatives, are likely to increase investigation and enforcement efforts in the

healthcare industry generally. In addition to standard federal criminal and civil sanctions, including imprisonment and penalties of up to $50,000 for each violation plus tripled damages for improper claims, violators of the Anti-Kickback Law may be subject to exclusion from the Medicare and/or Medicaid programs. In 1991, the HHS-OIG issued regulations describing compensation arrangements that are not viewed as illegal remuneration under the Anti-Kickback Law. Those regulations provide for certain safe harbors for identified types of compensation arrangements that, if fully complied with, assure participants in the particular arrangement that the HHS-OIG will not treat that participation as a criminal offense under the Anti-Kickback Law or as the basis for an exclusion from the Medicare and Medicaid programs or the imposition of civil sanctions. Failure to fall within a safe harbor does not constitute a violation of the Anti-Kickback Law, but the HHS-OIG has indicated failure to fall within a safe harbor may subject an arrangement to increased scrutiny. A violation of the Anti-Kickback Law by us or one or more of our partnerships could have a material adverse effect upon our business, financial position, results of operations, or cash flows. Even the assertion of a violation could have an adverse effect upon our stock price or reputation.

Some of our rehabilitation hospitals are owned through joint ventures with institutional healthcare providers that may be in a position to make or influence referrals to our hospitals. In addition, we have a number of relationships with physicians and other healthcare providers, including management or service contracts. Some of these investment relationships and contractual relationships may not meet all of the regulatory requirements to fall within the protection offered by a relevant safe harbor. Despite our compliance and monitoring efforts, there can be no assurance violations of the Anti-Kickback Law will not be asserted in the future, nor can there be any assurance our defense against any such assertion would be successful.

For example, we have entered into agreements to manage our hospitals that are owned by partnerships. Most of these agreements incorporate a percentage-based management fee. Although there is a safe harbor for personal services and management contracts, this safe harbor requires, among other things, the aggregate compensation paid to the manager over the term of the agreement be set in advance. Because our management fee may be based on a percentage of revenues, the fee arrangement may not meet this requirement. However, we believe our management arrangements satisfy the other requirements of the safe harbor for personal services and management contracts and comply with the Anti-Kickback Law.

Physician Self-Referral Law . The federal law commonly known as the “Stark law” and CMS regulations promulgated under the Stark law prohibit physicians from making referrals for “designated health services” including inpatient and outpatient hospital services, physical therapy, occupational therapy, radiology services, and home health services, to an entity in which the physician (or an immediate family member) has an investment interest or other financial relationship, subject to certain exceptions. The Stark law also prohibits those entities from filing claims or billing Medicare for those referred services. Violators of the Stark law and regulations may be subject to recoupments, civil monetary sanctions (up to $15,000 for each violation and assessments up to three times the amount claimed for each prohibited service) and exclusion from any federal, state, or other governmental healthcare programs. The statute also provides a penalty of up to $100,000 for a circumvention scheme. There are statutory exceptions to the Stark law for many of the customary financial arrangements between physicians and providers, including personal services contracts and leases. However, in order to be afforded protection by a Stark law exception, the financial arrangement must comply with every requirement of the applicable exception.

Under the 2010 Healthcare Reform Laws, the exception to the Stark law that currently permits physicians to refer patients to hospitals in which they have an investment or ownership interest has been dramatically limited by providing that only physician-owned hospitals with a provider agreement in place on December 31, 2010 are exempt from the general ban on self-referral. Existing physician-owned hospitals are prohibited from increasing the physician ownership percentage in the hospital after March 23, 2010. Additionally, physician-owned hospitals are prohibited from increasing the number of licensed beds after March 23, 2010, except when certain market and regulatory approval conditions are met. Currently, we have no hospitals that would be considered physician-owned under this law, except for one hospital recently acquired from Reliant which has an outside limited partner with a 0.5% equity interest.

CMS has issued several phases of final regulations implementing the Stark law. On November 16, 2015, CMS issued a new rule revising, clarifying, and adding two exceptions in order to accommodate delivery and payment system reform, reduce burdens on physicians and other providers, and promote compliance. While the changes are generally expected to help providers comply with the Stark law requirements, the complexity of the law and the associated regulations will remain a challenge for healthcare providers, who do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. We attempt to structure our relationships to meet one or more exceptions to the Stark law, but the regulations implementing the exceptions are detailed and complex. Accordingly, we cannot assure that every relationship complies fully with the Stark law.

Additionally, no assurances can be given that any agency charged with enforcement of the Stark law and regulations might not assert a violation under the Stark law, nor can there be any assurance our defense against any such assertion would be successful or that new federal or state laws governing physician relationships, or new interpretations of existing laws governing such relationships, might not adversely affect relationships we have established with physicians or result in the imposition of

penalties on us or on particular HealthSouth hospitals or another of our providers. Even the assertion of a violation could have an adverse effect upon our stock price or reputation.

*HIPAA*

The Health Insurance Portability and Accountability Act of 1996, commonly known as "HIPAA," broadened the scope of certain fraud and abuse laws by adding several criminal provisions for healthcare fraud offenses that apply to all health benefit programs. HIPAA also added a prohibition against incentives intended to influence decisions by Medicare or Medicaid beneficiaries as to the provider from which they will receive services. In addition, HIPAA created new enforcement mechanisms to combat fraud and abuse, including the Medicare Integrity Program, and an incentive program under which individuals can receive up to $1,000 for providing information on Medicare fraud and abuse that leads to the recovery of at least $100 of Medicare funds. Penalties for violations of HIPAA include civil and criminal monetary penalties. The HHS Office of Civil Rights ("HHS-OCR") began conducting pilot HIPAA audits of healthcare providers in 2015 and will implement a permanent program nationwide in early 2016.

HIPAA and related HHS regulations contain certain administrative simplification provisions that require the use of uniform electronic data transmission standards for certain healthcare claims and payment transactions submitted or received electronically. HIPAA regulations also regulate the use and disclosure of individually identifiable health-related information, whether communicated electronically, on paper, or orally. The regulations provide patients with significant rights related to understanding and controlling how their health information is used or disclosed and require healthcare providers to implement administrative, physical, and technical practices to protect the security of individually identifiable health information that is maintained or transmitted electronically.

With the enactment of the Health Information Technology for Economic and Clinical Health ("HITECH") Act as part of the American Recovery and Reinvestment Act of 2009, the privacy and security requirements of HIPAA have been modified and expanded. The HITECH Act applies certain of the HIPAA privacy and security requirements directly to business associates of covered entities. The modifications to existing HIPAA requirements include: expanded accounting requirements for electronic health records, tighter restrictions on marketing and fundraising, and heightened penalties and enforcement associated with noncompliance. Significantly, the HITECH Act also establishes new mandatory federal requirements for notification of breaches of security involving protected health information. HHS is responsible for enforcing the requirement that covered entities notify any individual whose protected health information has been improperly acquired, accessed, used, or disclosed. In certain cases, notice of a breach is required to be made to HHS and media outlets. The heightened penalties for noncompliance range from $100 to $50,000 per violation for most violations. In the event of violations due to willful neglect that are not corrected within 30 days, penalties start at $50,000 per violation and are not subject to a per violation statutory maximum. All penalties are subject to a $1,500,000 cap for multiple identical violations in a single calendar year. Willful neglect could include the failure to conduct a security risk assessment or adequately implement HIPAA compliance policies.

On January 17, 2013, the HHS-OCR issued a final rule, with a compliance date of September 23, 2013, to implement the HITECH Act and make other modifications to the HIPAA and HITECH regulations. This rule expanded the potential liability for a breach involving protected health information to cover some instances where a subcontractor is responsible for the breaches and that individual or entity was acting within the scope of delegated authority under the related contract or engagement. The final rule generally defines "breach" to mean the acquisition, access, use or disclosure of protected health information in a manner not permitted by the HIPAA privacy standards, which compromises the security or privacy of protected health information. Under the final rule, improper acquisition, access, use, or disclosure is presumed to be a reportable breach, unless the potentially breaching party can demonstrate a low probability that protected health information has been compromised. On the whole, it appears the changes to the breach reporting rules could increase breach reporting in the healthcare industry.

In addition, there are numerous legislative and regulatory initiatives at the federal and state levels addressing patient privacy concerns. Healthcare providers will continue to remain subject to any federal or state privacy-related laws that are more restrictive than the privacy regulations issued under HIPAA. These laws vary and could impose additional penalties. Any actual or perceived violation of privacy-related laws and regulations, including HIPAA and the HITECH Act, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

**Available Information**

Our website address is www.healthsouth.com . We make available through our website the following documents, free of charge: our annual reports (Form 10-K), our quarterly reports (Form 10-Q), our current reports (Form 8-K), and any amendments to those reports promptly after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission. In addition to the information that is available on our website, the reader may review and

copy any materials we file with or furnish to the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The reader may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov , which includes reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

**Item 1A. Risk Factors**

Our business, operations, and financial position are subject to various risks. Some of these risks are described below, and the reader should take such risks into account in evaluating HealthSouth or any investment decision involving HealthSouth. This section does not describe all risks that may be applicable to us, our industry, or our business, and it is intended only as a summary of certain material risk factors. More detailed information concerning other risk factors as well as those described below is contained in other sections of this annual report.

***Reductions or changes in reimbursement from government or third-party payors could adversely affect our Net operating revenues and other operating results.***

We derive a substantial portion of our *Net operating revenues* from the Medicare program. See Item 1, *Business* , "Sources of Revenues," for a table identifying the sources and relative payor mix of our revenues. In addition to many ordinary course reimbursement rate changes that the United States Department of Health and Human Services, Centers for Medicare and Medicaid Services ("CMS"), adopts each year as part of its annual rulemaking process for various healthcare provider categories, Congress and some state legislatures have periodically proposed significant changes in laws and regulations governing the healthcare system. Many of these changes have resulted in limitations on the increases in and, in some cases, significant roll-backs or reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes or reimbursement reductions.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act (as subsequently amended, the "2010 Healthcare Reform Laws"). Many provisions within the 2010 Healthcare Reform Laws have impacted or could in the future impact our business, including: (1) Medicare reimbursement reductions, such as reductions to annual market basket updates to providers and reimbursement rate rebasing adjustments; (2) the possible combining, or "bundling," of reimbursement for a Medicare beneficiary's episode of care at some point in the future; (3) implementing a voluntary program for accountable care organizations ("ACOs"); and (4) creating an Independent Payment Advisory Board.

For our inpatient rehabilitation hospitals, these laws include reductions in CMS's annual adjustments to Medicare reimbursement rates by what is commonly known as a "market basket update." In accordance with Medicare laws and statutes, CMS makes market basket updates by provider type. The reductions in the annual market basket updates for our hospitals continue through 2019 for each CMS fiscal year, which for us begins October 1, as follows:

| 2016 | 2017-19 |
|---|---|
| 0.2% | 0.75% |

In addition, the 2010 Healthcare Reform Laws require the market basket update for our hospitals to be reduced by a productivity adjustment on an annual basis. The productivity adjustments equal the trailing 10-year average of changes in annual economy-wide private nonfarm business multi-factor productivity. The productivity adjustment in effect for fiscal year (October 1 to September 30) 2016 is a decrease to the market basket update of 50 basis points.

For home health agencies, the 2010 Healthcare Reform Laws directed CMS to improve home health payment accuracy through rebasing home health payments over four years starting in 2014. The rebasing adjustment for calendar year 2016 (the third year of the four-year phase-in) offset the annual market basket update of 2.3% with a 2.4% reduction. CMS is also implementing a case-mix coding intensity reduction of 90 basis points in 2016. In addition, the 2010 Healthcare Reform Laws also require an annual home health productivity adjustment. For calendar year 2016, that adjustment is a decrease to the market basket update of 40 basis points.

For hospice agencies, the 2010 Healthcare Reform laws require, in addition to an annual productivity adjustment, further reduction of the annual market basket update of 30 basis points for fiscal years through 2019. The hospice productivity adjustment for the fiscal year beginning October 1, 2015 was a decrease to the market basket update of 50 basis points.

Other federal legislation can also have a significant direct impact on our Medicare reimbursement. On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which provided for an automatic 2% reduction of Medicare

program payments. This automatic reduction, known as “sequestration,” which began affecting payments received after April 1, 2013, reduced the payments we receive under the inpatient rehabilitation facility prospective payment system (the “IRF-PPS”) resulting in a net year-over-year decrease in our *Net operating revenues* of approximately $9 million in 2014. The effect of sequestration on year-over-year comparisons of *Net operating revenues* ceased on April 1, 2014. However, each year through 2025, the reimbursement we receive from Medicare, after first taking into account all annual payment adjustments including the market basket update, will be reduced by sequestration unless it is repealed before then.

Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, and/or further reductions to provider payments. For example, on April 16, 2015, the President signed into law the Medicare Access and CHIP (Children’s Health Insurance Program) Reauthorization Act, which repealed the statutory mechanism providing for annual automatic adjustments to the Medicare physician fee schedule using a sustainable growth rate formula that has historically resulted in annual deep cuts to physician reimbursement rates, a consequence of which has been the so-called “doc fixes” passed by Congress annually since 2002 to override those automatic adjustments. The primary impact of this act on us is a mandated market basket update of +1.0% in 2018 for rehabilitation hospitals as well as home health and hospice agencies.

In October 2014, the President signed into law the Improving Medicare Post-Acute Care Transformation Act of 2014 (the “IMPACT Act”). The IMPACT Act was developed on a bi-partisan basis by the House Ways and Means and Senate Finance Committees and incorporated feedback from healthcare providers and provider organizations that responded to the Committees’ solicitation of post-acute payment reform ideas and proposals. It directs the United States Department of Health and Human Services (“HHS”), in consultation with healthcare stakeholders, to implement standardized data collection processes for post-acute quality and outcome measures. Although the IMPACT Act does not specifically call for the development of a new post-acute payment system, we believe this act will lay the foundation for possible future post-acute payment policies that would be based on patients’ medical conditions and other clinical factors rather than the setting where the care is provided. It will create additional data reporting requirements for our hospitals and home health and hospice agencies. The precise details of these new reporting requirements, including timing and content, will be developed and implemented by CMS through the regulatory process that we expect will take place over the next several years. We cannot quantify the potential effects of the IMPACT Act on us.

Each year, the Medicare Payment Advisory Commission (“MedPAC”), an independent agency, advises Congress on issues affecting Medicare and makes payment policy recommendations to Congress for a variety of Medicare payment systems including, among others, the IRF-PPS, the home health prospective payment system (“HH-PPS”) and the hospice prospective payment system. MedPAC also provides comments to CMS on proposed rules, including the prospective payment system rules. Congress is not obligated to adopt MedPAC recommendations, and, based on outcomes in previous years, there can be no assurance Congress will adopt MedPAC’s recommendations in a given year. However, MedPAC’s recommendations have, and may in the future, become the basis for subsequent legislative or regulatory action.

In connection with CMS’s final rulemaking for the 2016 HH-PPS, MedPAC recommended, among other things, legislative changes to make the rebasing cuts larger in size to further reduce margins and the overhaul of the HH-PPS to pay providers based on patient characteristics in lieu of the number of therapy services furnished. MedPAC also recommended that CMS not provide for a market basket update in the 2016 IRF-PPS. This year, MedPAC approved recommendations to eliminate the market basket update for each of the IRF-PPS, the HH-PPS and the Hospice-PPS for 2017.

We cannot predict what alternative or additional deficit reduction initiatives, Medicare payment reductions, or post-acute care reforms, if any, will ultimately be enacted into law, or the timing or effect of any initiatives or reductions. Those initiatives or reductions would be in addition to many ordinary course reimbursement rate changes that CMS adopts each year as part of the market basket update rulemaking process for various provider categories. There can be no assurance future governmental action will not result in substantial changes to, or material reductions in, our reimbursements. In any given year, the net effect of the changes may result in a decrease in our reimbursement rate, and that decrease may occur at a time when our expenses are increasing. As a result, there could be a material adverse effect on our business, financial position, results of operations, and cash flows. For additional discussion of how we are reimbursed by Medicare, see Item 1, *Business* , “Regulatory and Reimbursement Challenges” and “Sources of Revenues—Medicare Reimbursement.”

In addition, there are increasing pressures, including as a result of the 2010 Healthcare Reform Laws, from many third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. Our relationships with managed care and nongovernmental third-party payors, such as health maintenance organizations and preferred provider organizations, are generally governed by negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. We could be adversely affected in some of the markets where we operate if we are unable to negotiate and maintain favorable agreements with third-party payors.

***The ongoing evolution of the healthcare delivery system, including alternative payment models and value-based purchasing initiatives, in the United States may significantly affect our business and results of operations.***

The healthcare industry in general is facing uncertainty associated with the efforts, primarily arising from initiatives such as payment bundling and ACOs included in the 2010 Healthcare Reform Laws, to identify and implement workable coordinated care and integrated payment delivery models. In a coordinated care delivery model, hospitals, physicians, and other care providers are reimbursed in a fashion meant to encourage the provision of coordinated healthcare on a more efficient, patient-centered basis. These providers are then paid based on the overall value of the services they provide to a patient rather than the number of services they provide. While this is consistent with our goal and proven track record of being a high-quality, cost-effective provider, broad-based implementation of a new delivery model would represent a significant evolution or transformation of the healthcare industry, which may have a significant impact on our business and results of operations.

The 2010 Healthcare Reform Laws directed HHS to examine the feasibility of bundling, including conducting a voluntary, multi-year bundling pilot program to test and evaluate alternative payment methodologies. There are four project types or models: acute care only, acute/post-acute, post-acute only (Model 3), and acute and physician services. In the initial non-risk bearing stage of the bundling program (Phase 1), pilot participants received data from CMS on care patterns and engaged in shared learning in how to improve care. The second phase (Phase 2) requires participants, pending contract finalization and completion of the standard CMS program integrity reviews, to take on financial risk for episodes of care.

Eight of our hospitals began participating in Phase 2, the “at-risk” phase, of Model 3 of CMS’ voluntary Bundled Payments for Care Improvement (“BPCI”) initiative in 2015. We also have several hospitals that have signed participation agreements with acute care providers participating in Model 2 of the BPCI initiative. Ten of Encompass’s home health agencies began participating in Phase 2 of Model 3 in 2014. In July 2015, 42 additional home health agencies began participating in Phase 2.

Similarly, CMS has established per the 2010 Healthcare Reform Laws several separate ACO programs, the largest of which is the Medicare Shared Savings Program (“MSSP”), a voluntary ACO program in which hospitals, physicians, and other care providers pursue the delivery of coordinated healthcare on a more efficient, patient-centered basis. Conceptually, ACOs receive a portion of any savings generated above a certain threshold from care coordination as long as benchmarks for the quality of care are maintained. Under the MSSP, there are two different ACO tracks from which participants can choose. The first track allows ACOs to share only in the savings. The second track requires ACOs to share in any savings and losses but offers ACOs a greater share of any savings realized than the first track offers. The ACO rules adopted by CMS are extremely complex and remain subject to further refinement by CMS. According to CMS, there are 477 ACOs serving almost 8.9 million beneficiaries as of January 2016. We continue to evaluate, on a case-by-case basis, appropriate ACO participation opportunities for our hospitals, home health agencies, and patients. To date, we have signed two ACO participation agreements for our hospitals. Encompass has also partnered as the exclusive preferred home health provider with Premier PHC™, an ACO serving approximately 20,000 Medicare patients.

In January 2015, HHS announced it set various goals with respect to tying Medicare reimbursements to alternative payment models and value-based purchasing. Specifically, HHS set goals of tying 30 percent of traditional, or fee-for-service, Medicare payments to quality or value through alternative payment models, such as ACOs or bundled payment arrangements, by the end of 2016 and tying 50 percent of payments to those models by the end of 2018. HHS also set goals of tying 85 and 90 percent of traditional Medicare payments to quality or value by the end of 2016 and 2018, respectively, through programs such as those that include financial incentives for reducing acute care hospital readmissions.

On November 16, 2015, CMS issued its final rule establishing the Comprehensive Care for Joint Replacement (“CJR”) payment model. This mandatory model holds acute care hospitals accountable for the quality of care they deliver to Medicare fee-for-service beneficiaries for lower extremity joint replacements (i.e., knees and hips) from surgery through recovery. Through the five-year payment model, healthcare providers in 67 geographic areas would continue to be paid under existing Medicare payment systems. However, the hospital where the joint replacement takes place would be held accountable for the quality and costs of care for the entire episode of care — from the time of the surgery through 90 days after discharge. Depending on the quality and cost performance during the entire episode, the hospital may receive an additional payment or be required to repay Medicare for a portion of the episode costs. As a result, the acute care hospitals are incented to work with physicians and post-acute care providers to ensure beneficiaries receive the coordinated care they need in an efficient manner.

The bundling and ACO initiatives have served as motivating factors for regulators and healthcare industry participants to identify and implement workable coordinated care delivery models. Broad-based implementation of a new delivery model would represent a significant transformation for us and the healthcare industry generally. The nature and timing of the evolution or transformation of the current healthcare system to coordinated care delivery and payment models is uncertain and will likely remain so for some time. The development of new delivery and payment systems will almost certainly take significant time and

expense. Many of the alternative approaches being explored may not work or could change substantially prior to a nationwide implementation.

Additionally, as the number and types of bundling and ACO models increase, the number of Medicare beneficiaries who are treated in one of the models increases. Our willingness and ability to participate in coordinated care delivery and alternative payment models and the referral patterns of other providers participating in those models may affect our access to Medicare patients who would benefit from treatment in inpatient rehabilitation hospitals or from the services Encompass offers. For further discussion of new coordinated care delivery and payment models, the associated challenges, and our efforts to respond to them, see the “Executive Overview—Key Challenges—Changes to Our Operating Environment Resulting from Healthcare Reform” section of Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations* .

***Other legislative and regulatory initiatives and changes affecting the industry could adversely affect our business and results of operations.***

In addition to the legislative and regulatory actions that directly affect our reimbursement rates or further the evolution of the current healthcare delivery system, other legislative and regulatory changes, including as a result of ongoing healthcare reform, affect healthcare providers like us from time to time. The 2010 Healthcare Reform Laws establish the Independent Payment Advisory Board appointed by the President that is charged with presenting proposals to Congress to reduce Medicare expenditures upon the occurrence of Medicare expenditures exceeding a certain level. This board will have broad authority to develop new Medicare policies (including changes to provider reimbursement). In general, unless Congress acts to block the proposals of this board, CMS will implement the policy recommendations. However, due to the market basket reductions that are also part of these laws, certain healthcare providers, such as our inpatient rehabilitation hospitals, will not be subject to payment reduction proposals developed by this board and presented to Congress until 2020. While most of our operations may not be subject to its payment reduction proposals for a period of time, based on the scope of this board’s directive to reduce Medicare expenditures and the significance of Medicare as a payor to us, other decisions made by this board may adversely impact our results of operations, including reductions in the payment for home health services. As of December 31, 2015, the Independent Payment Advisory Board members have not been appointed.

The 2010 Healthcare Reform Laws include other provisions that could adversely affect us as well. They include the expansion of the federal Anti-Kickback Law and the False Claims Act that, when combined with other recent federal initiatives, are likely to increase investigation and enforcement efforts in the healthcare industry generally. Changes include increased resources for enforcement, lowered burden of proof for the government in healthcare fraud matters, expanded definition of claims under the False Claims Act, enhanced penalties, and increased rewards for relators in successful prosecutions. CMS may also suspend payment for claims prospectively if, in its opinion, credible allegations of fraud exist. The initial suspension period may be up to P180D days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the HHS Office of Inspector General (the “HHS-OIG”) or the United States Department of Justice (the “DOJ”). Any such suspension would adversely impact our financial position, results of operations, and cash flows.

Some states in which we operate have also undertaken, or are considering, healthcare reform initiatives that address similar issues. While many of the stated goals of other federal and state reform initiatives are consistent with our own goal to provide care that is high-quality and cost-effective, legislation and regulatory proposals may lower reimbursements, increase the cost of compliance, decrease patient volumes, and otherwise adversely affect our business. We cannot predict what healthcare initiatives, if any, will be enacted, implemented or amended, or the effect any future legislation or regulation will have on us.

On October 29, 2015, CMS issued a proposed rule relating to requirements for discharge planning for hospitals and home health agencies as called for by the IMPACT Act. The proposed rule would revise the discharge planning requirements applicable to our inpatient rehabilitation hospitals and Encompass home health agencies.

CMS proposes to require hospitals (including inpatient rehabilitation facilities (“IRFs”)) to have a discharge planning process that focuses on patients’ goals and preferences and on preparing them and, as appropriate, their caregivers, to be active partners in their post-discharge care. For our hospitals, the proposed rule would require development of standardized procedures pertaining to the development and finalization of unique discharge plans for all patients. CMS proposes that discharge instructions must be provided at the time of discharge to patients, or the patient’s caregiver or both, who are discharged home or who are referred to other post-acute care services, and that any post-discharge practitioners or providers must receive the patient’s discharge instructions at the time of discharge, including the patient’s discharge summary within 48 hours of discharge and any test results within 24 hours of availability.

For home health agencies, the proposed rule includes several new requirements. The discharge planning process would require the regular re - evaluation of patients to identify changes requiring modification of the discharge plan. The physician responsible for a patient's plan of care would have to be involved in the ongoing establishment of the discharge plan. Home health agencies must also send certain specified medical and other information to the post-discharge facility or health care practitioner. The proposed rule would likely require the modification of existing discharge forms and reports, and patient visits may need to be extended in order to accommodate patient education. If adopted as proposed, we would expect to incur additional one-time and recurring expenses to comply, but at this time, we cannot predict what the final requirements will be or the timing or effect of those requirements.

Under the authorization granted in the IMPACT Act, in January 2016, CMS released draft specifications for new Medicare spending per beneficiary measures to be tracked and reported by CMS for each IRF, skilled nursing facility, long-term acute care hospital and home health agency. The intent of tracking and publishing this data is to evaluate a given provider's payment efficiency relative to the efficiency of the national median provider in that provider's post-acute segment. CMS believes this measure will encourage improved efficiency and coordination of care in the post-acute setting by holding providers accountable for Medicare resource use during an episode of care. However, the proposed measures do not take into account patient outcomes. CMS has not proposed to compare payment efficiency across provider segments. Per the IMPACT Act, these spending per beneficiary measures must be finalized and effective by October 1, 2016 for IRFs and by January 1, 2017 for home health agencies.

In January 2016, CMS extended a temporary moratorium on the enrollment of new home health agencies and branch locations. CMS established the moratorium in July 2013, and the latest extension is set to expire in July 2016 unless it is again extended. It applies to six metropolitan areas, including Houston and Dallas where Encompass has several locations.

On February 5, 2016, CMS published a notice in the federal register detailing two proposed home health regulatory initiatives: 1) establishment of a new demonstration project under which it would require home health providers to seek prior authorization before submitting claims for services in Florida, Texas, Illinois, Michigan, and Massachusetts and 2) an extension of the Medicare probable fraud pilot. In the demonstration project, CMS proposes to have Medicare contractors collect additional information from home health providers submitting claims in order to determine proper payment or if there is a suspicion of fraud. In the pilot, CMS proposes to collect information from home health agencies, referring physicians and patients in a random national sampling of claims to establish a baseline estimate of probable fraud in Medicare home health billings.

As discussed above, MedPAC makes healthcare policy recommendations to Congress and provides comments to CMS on Medicare payment related issues. Congress is not obligated to adopt MedPAC's recommendations, and, based on outcomes in previous years, there can be no assurance Congress will adopt any given MedPAC recommendation. For example, in January 2016, MedPAC released materials discussing several possible changes, some of which MedPAC has advocated previously, to various post-acute payment systems. One of the possible changes reported on was the development of a unified payment system for all post-acute care in lieu of separate systems for IRFs, skilled nursing facilities, long-term acute care hospitals, and home health agencies. MedPAC expects to issue a report on this in April 2016, including providing details of alternative models that could be used to test a unified payment system, and has stated it would expect IRF payments to decrease under a unified payment system. Another possible change reported on was an increase of outlier payments to be funded by reductions to non-outlier payments rates under the IRF-PPS.

We cannot predict what legislative or regulatory reforms or changes, if any, will ultimately be enacted, or the timing or effect any of those changes or reforms will have on us. If enacted, they may be challenging for all providers and have the effect of limiting Medicare beneficiaries' access to healthcare services and could have an adverse impact on our financial position, results of operations, and cash flows. For additional discussion of healthcare reform and other factors affecting reimbursement for our services, see Item 1, *Business* , "Regulatory and Reimbursement Challenges" and "Sources of Revenues—Medicare Reimbursement."

***Quality reporting requirements may negatively impact the Medicare reimbursement we receive.***

The focus on alternative payment models and value-based purchasing of healthcare services has, in turn, led to more extensive quality of care reporting requirements. In many cases, the new reporting requirements are linked to reimbursement incentives. For example, under the 2010 Healthcare Reform Laws, CMS established new quality data reporting, effective October 1, 2012, for all IRFs. A facility's failure to submit the required quality data results in a two percentage point reduction to that facility's annual market basket increase factor for payments made for discharges in the subsequent Medicare fiscal year. Hospitals began submitting quality data to CMS in October 2012. All of our hospitals met the reporting deadlines occurring on or before December 31, 2014 resulting in no corresponding reimbursement reductions for fiscal years 2015 and 2016. Similarly, home health and hospice agencies are also required to submit quality data to CMS each year, and the failure to do so in accordance with the rules will result in a two percentage point reduction in their market basket update. To date, none of Encompass's home health and hospice agencies have incurred a reduction in their reimbursement rates.

As noted above, the IMPACT Act mandated that CMS adopt several new quality reporting measures for the various post-acute provider types. For example, CMS recently adopted six additional IRF quality reporting measures, the reporting of which beginning on October 1, 2016 will require additional time and expense and could affect reimbursement beginning October 1, 2017. In healthcare generally, the burdens associated with collecting, recording, and reporting quality data are increasing. Home health providers are now subject to tracking and reporting 79 CMS-sanctioned quality reporting measures.

The 2016 HH Rule establishes a Home Health Value-Based Purchasing model in nine states, which will include five performance years beginning January 1, 2016 and test whether incentives for better care can improve outcomes in the delivery of home health services. The model would apply a reduction or increase to current home health agency payments, depending on quality performance, made to agencies in Massachusetts, Maryland, North Carolina, Florida, Washington, Arizona, Iowa, Nebraska, and Tennessee. Payment adjustments would be applied on an annual basis, beginning at 3% and increasing to 8% in later years of the initiative.

There can be no assurance all of our hospitals and agencies will continue to meet quality reporting requirements in the future which may result in one or more of our hospitals or agencies seeing a reduction in its Medicare reimbursements. Regardless, we, like other healthcare providers, are likely to incur additional expenses in an effort to comply with additional and changing quality reporting requirements.

***Compliance with the extensive laws and government regulations applicable to healthcare providers requires substantial time, effort and expense, and if we fail to comply with them, we could suffer penalties or be required to make significant changes to our operations.***

Healthcare providers are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

- licensure, certification, and accreditation;
- policies, either at the national or local level, delineating what conditions must be met to qualify for reimbursement under Medicare (also referred to as coverage requirements);
- coding and billing for services;
- requirements of the 60% compliance threshold under the 2007 Medicare Act;
- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws;
- quality of medical care;
- use and maintenance of medical supplies and equipment;
- maintenance and security of patient information and medical records;
- acquisition and dispensing of pharmaceuticals and controlled substances; and
- disposal of medical and hazardous waste.

In the future, changes in these laws or regulations or the manner in which they are enforced could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our hospitals, equipment,

personnel, services, capital expenditure programs, operating procedures, and contractual arrangements, as well as the way in which we deliver home health and hospice services. Those changes could also affect reimbursements as well as future training and staffing costs.

In addition to specific compliance-related laws and regulations, examples of regulatory changes that can affect our business, beyond direct changes to Medicare reimbursement rates, can be found from time to time in CMS's annual rulemaking. The final rule for the fiscal year 2010 IRF-PPS implemented new coverage requirements which provided in part that a patient medical record must document a reasonable expectation that, at the time of admission to an IRF, the patient generally required and was able to participate in the intensive rehabilitation therapy services uniquely provided at IRFs. CMS has also taken the position that a patient's medical file must appropriately document the rationale for the use of group therapies, as opposed to one-on-one therapy. As previously noted, the appropriate utilization of group therapy was a focus of recent HHS-OIG work plans. Beginning on October 1, 2015, a new data collection requirement will go into effect that will capture the minutes and mode (individual, group, concurrent, or co-treatment) of therapy by specialty. CMS plans to use this data to potentially support future rulemaking in this area. Additionally, the final rules for the fiscal years 2014 and 2015 IRF-PPS include changes, effective October 1, 2015, to the list of medical conditions, including a reduction in the number of conditions, that will presumptively count toward the 60% compliance threshold to qualify for reimbursement as an inpatient rehabilitation hospital.

Of note, the HHS-OIG each year releases a work plan that identifies areas of compliance focus for the coming year. In recent years, HHS-OIG work plans for IRFs have focused on, among other items, the appropriate utilization of concurrent and group therapy and adverse and temporary harm events occurring in IRFs. The 2016 work plan indicates HHS-OIG will focus on appropriate documentation to support claims by IRFs and the home health agencies. For hospice agencies, the 2016 work plan focuses on reviews of beneficiaries' plans of care and determine whether they meet key requirements and medical records to address concerns that a level of hospice care is being billed when that level of service is not medically necessary.

As the recent HHS-OIG work plans demonstrate, the clarity and completeness of each patient medical file, some of which is the work product of a physician not employed by us, are essential to demonstrating our compliance with various regulatory and reimbursement requirements. For example, to support the determination that a patient's IRF treatment was reasonable and necessary, the file must contain, among other things, an admitting physician's assessment of the patient as well as a post-admission assessment by the treating physician and other information from clinicians relating to the plan of care and the therapies being provided. These physicians exercise their independent medical judgment. We and our hospital medical directors, who are independent contractors, provide training to the physicians we work with on a regular basis regarding appropriate documentation. In connection with subsequent payment audits and investigations, there can be no assurance as to what opinion a third party may take regarding the status of patient files or the physicians' medical judgment evidenced in those files.

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

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

Although we have invested, and will continue to invest, substantial time, effort, and expense in implementing and maintaining training programs as well as internal controls and procedures designed to ensure regulatory compliance, if we fail to comply with applicable laws and regulations, we could be required to return portions of reimbursements for discharges deemed after the fact to have not been appropriate under the IRF-PPS. We could also be subjected to other liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our

hospitals, and (3) exclusion or suspension of one or more of our hospitals from participation in the Medicare, Medicaid, and other federal and state healthcare programs, which, if lengthy in duration and material to us, could potentially trigger a default under our credit agreement. Because Medicare comprises a significant portion of our *Net operating revenues* , it is important for us to remain compliant with the laws and regulations governing the Medicare program and related matters including anti-kickback and anti-fraud requirements. As discussed above in connection with the 2010 Healthcare Reform Laws, the federal government has in the last couple of years made compliance enforcement and fighting healthcare fraud top priorities. In the past few years, the DOJ and HHS as well as federal lawmakers have significantly increased efforts to ensure strict compliance with various reimbursement related regulations as well as combat healthcare fraud. The DOJ has pursued and recovered a record amount of taxpayer dollars lost to healthcare fraud. Additionally, the federal government has become increasingly aggressive in asserting that incidents of erroneous billing or record keeping represent a violation of the False Claims Act. Human error and oversight in record keeping and documentation, particularly where those activities are the responsibility of non-employees, are always a risk in business, and the healthcare industry and independent physicians are no different.

Reductions in reimbursements, substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows. Even the assertion of a violation, depending on its nature, could have a material adverse effect upon our stock price or reputation.

***Reimbursement claims are subject to various audits from time to time and such audits may negatively impact our operations and our cash flows from operations.***

Reimbursement claims made by health care providers, including inpatient rehabilitation hospitals as well as home health and hospice agencies, are subject to audit from time to time by governmental payors and their agents, such as the Medicare Administrative Contractors ("MACs") that act as fiscal intermediaries for all Medicare billings, and insurance carriers, as well as the OIG, CMS and state Medicaid programs. As noted above, the clarity and completeness of each patient medical file, some of which is the work product of a physician not employed by us, is essential to successfully challenging any payment denials. If the physicians working with our patients do not adequately document, among other things, their diagnoses and plans of care, our risks related to audits and payment denials in general are greater. Depending on the nature of the conduct found in such audits and whether the underlying conduct could be considered systemic, the resolution of these audits could have an adverse effect on our financial position, results of operation and liquidity.

With respect to the Medicare program, from which we receive a substantial portion of our revenues, certain of our MACs, under programs known as "widespread probes," have conducted pre-payment claim reviews of our Medicare billings and in some cases denied payment for certain diagnosis codes. A substantial majority of the denials we have encountered in these probes derive from one MAC. In connection with recent probes, this MAC has made determinations regarding medical necessity which represent its uniquely restrictive interpretations of the CMS coverage rules. We have discussed our objections to those interpretations with both the MAC and CMS. We cannot predict what, if any, changes will result from those discussions.

CMS has developed and instituted various audit programs under which CMS contracts with private companies to conduct claims and medical record audits. These audits are in addition to those conducted by existing MACs. Some contractors are paid a percentage of the overpayments recovered. One type of audit contractor, the Recovery Audit Contractors ("RACs"), receive claims data directly from MACs on a monthly or quarterly basis and are authorized to review claims up to three years from the date a claim was paid, beginning with claims filed on or after October 1, 2007. Beginning May 15, 2015, CMS limited the recovery auditor look back period to six months from the date of service in cases where the hospital submits the claim within three months of the date of service.

RAC audits of IRFs initially focused on coding errors, but have subsequently been expanded to medical necessity reviews. In connection with CMS approved and announced RACs audits related to IRFs, we received requests in 2014 and 2013 to review certain patient files for discharges occurring from 2010 to 2014. These post-payment RAC audits are focused on medical necessity requirements for admission to IRFs rather than targeting a specific diagnosis code as in previous pre-payment audits. Medical necessity is an assessment by an independent physician of a patient's ability to tolerate and benefit from intensive multi-disciplinary therapy provided in an IRF setting. To date, the Medicare payments that are subject to these RAC audit requests represent less than 1% of our Medicare patient discharges from 2010 to 2014. We have appealed substantially all RAC denials arising from these audits using the same process we follow for appealing denials of certain diagnosis codes by MACs. CMS has previously operated a demonstration project that expanded the RAC program to include prepayment review of Medicare fee-for-service claims from primarily acute care hospitals. It is unclear whether CMS intends to continue RAC prepayment reviews and if so, what providers and claims would be the focus of those reviews.

CMS has also established contractors known as the Zone Program Integrity Contractors ("ZPICs"). These contractors are successors to the Program Safeguard Contractors and conduct audits with a focus on potential fraud and abuse issues. Like

the RACs, the ZPICs conduct audits and have the ability to refer matters to the HHS-OIG or the DOJ. Unlike RACs, however, ZPICs do not receive a specific financial incentive based on the amount of the error.

Audits may lead to assertions that we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid or disallow reimbursement. Additionally, if the MAC discussed above continues to deny a significant number of claims for certain diagnosis codes, we may experience similar difficulties. As a result, we may suffer reduced profitability, and we may have to elect not to accept patients and conditions we believe can benefit from inpatient rehabilitation. We cannot predict when or how these audit programs will affect us.

Our third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to us. We could be adversely affected in some of the markets where we operate if the auditing payor alleges substantial overpayments were made to us due to coding errors or lack of documentation to support medical necessity determinations.

***Delays in the administrative appeals process associated with denied Medicare reimbursement claims may delay or reduce receipt of the related reimbursement amounts for services previously provided.***

Ordinary course Medicare pre-payment denials by MACs, as well as denials resulting from widespread probes and audits, are subject to appeal by providers. We have historically appealed a majority of our denials. For claims we choose to appeal to an administrative law judge, we have historically experienced a greater than 70% success rate. However, the appeals adjudication process established by CMS has encountered significant delays in recent years. For example, most of our appeals heard by an administrative law judge in 2015 related to denials received in 2011 and 2012. We believe the process for resolving individual Medicare payment claims that are denied will continue to take in excess of three years. Additionally, the number of new denials far exceeds the number of appeals resolved in recent years as shown in the following summary of our inpatient rehabilitation segment activity:

| | New Denials | Collections of Previously Denied Claims | Provision for Doubtful Accounts for Denial Activity |
|---|---|---|---|
| | | (In Millions) | |
| **2015** | $79.0 | $15.0 | $20.6 |
| **2014** | 52.5 | 14.1 | 14.0 |

We record our estimates for pre-payment denials, including those resulting from widespread probes, and for post-payment audit denials that will ultimately not be collected in the *Provision for doubtful accounts.* See Note 1, *Summary of Significant Accounting Policies* , “Net Operating Revenues,” to the accompanying consolidated financial statements. Given the continuing or increasing delays along with the increasing number of denials in the backlog, we may experience increases in the *Provision for doubtful accounts* , decreases in cash flow as a result of increasing accounts receivable, and/or a shift in the patients and conditions we treat, any of which could have an adverse effect on our financial position, results of operations, and liquidity. Although there is legislation proposed in Congress, the goal of which is to reform and improve the Medicare audit and appeals process, we cannot predict what, if any, legislation will be adopted or what, if any, effect that legislation might have on the audit and appeals process.

***Changes in our payor mix or the acuity of our patients could adversely impact our revenues or our profitability.***

Many factors affect pricing of our services and, in turn, our revenues. For example, in the inpatient rehabilitation segment, these factors include, among other things, the treating facility’s urban or rural status, the length of stay, the payor and its applicable rate of reimbursement, and the patient’s medical condition and impairment status (acuity). In 2015, our inpatient rehabilitation segment experienced a shift in payor mix to a slightly larger percentage of Medicaid patients and a shift to a slightly lower average acuity for our patients, both of which adversely affected pricing growth. For additional discussion of these impacts in 2015, see the “Segment Results of Operations—Inpatient Rehabilitation—Net Operating Revenues” section of Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations.* The expansion and growth of Medicaid and insurance exchanges resulting from provisions of the 2010 Healthcare Reform Laws have increased the number of those patients coming to us. Medicaid reimbursement rates are almost always the lowest among those of our payors, and frequently Medicaid patients come to us with other complicating conditions that make treatment more difficult and costly. Similarly, the insurance coverages offered in the exchanges typically reimburse us at rates lower than we receive under other managed care contracts. While it is not anticipated that Medicaid and insurance exchanges will continue to grow at the rate they have in recent years, we cannot predict whether our payor mix will continue to shift to these lower reimbursement rate payors.

In the future, we may also experience shifts in our payor mix or the acuity of our patients that could adversely affect our pricing, revenues or profitability.

***We face intense competition for patients from other healthcare providers.***

We operate in a highly competitive, fragmented inpatient rehabilitation and home health and hospice industries. Although we are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals, in any particular market we may encounter competition from local or national entities with longer operating histories or other competitive advantages. For example, acute care hospitals, including those owned and operated by large public companies, may choose to expand or begin offering post-acute rehabilitation services. Given that approximately 92% of our hospitals' referrals come from acute care hospitals, that increase in competition might materially and adversely affect our admission referrals in the related markets. There are also large acute care systems that may have more resources available to compete than we have.

In the home health and hospice services industry, our primary competition comes from locally owned private home health companies or acute-care hospitals with adjunct home health services and typically varies from market to market. We compete with a variety of other companies in providing home health and hospice services, some of which, including several large public companies, may have greater financial and other resources and may be more established in their respective communities. Competing companies may offer newer or different services from those we offer or have better relationships with referring physicians and may thereby attract patients who are presently, or would be candidates for, receiving Encompass home health or hospice services. The other public companies have or may obtain significantly greater marketing and financial resources than we have or may obtain. Relatively few barriers to entry exist in most of our local markets. Accordingly, other companies, including hospitals and other healthcare organizations that are not currently providing competing services, may expand their services to include home health services, hospice care, community care services, or similar services.

There can be no assurance this competition, or other competition which we may encounter in the future, will not adversely affect our business, financial position, results of operations, or cash flows. In addition, from time to time, there are efforts in states with certificate of need ("CON") laws to weaken those laws, which could potentially increase competition in those states. Conversely, competition and statutory procedural requirements in some CON states may inhibit our ability to expand our operations. For a breakdown of the CON status of the states and territories in which we have operations, see Item 2, *Properties* .

***If we are unable to maintain or develop relationships with patient referral sources, our growth and profitability could be adversely affected.***

Our success depends in large part on referrals from physicians, hospitals, case managers and other patient referral sources in the communities served. Referral sources are not contractually obligated to refer patients to us and may refer their patients to other providers. Our growth and profitability depend on our ability to establish and maintain close working relationships with these patient referral sources and to increase awareness and acceptance of the benefits of inpatient rehabilition, home health, and hospice care by our referral sources and their patients. We cannot provide assurance that we will be able to maintain our existing referral source relationships or that we will be able to develop and maintain new relationships in existing or new markets. Our loss of, or failure to maintain, existing relationships or our failure to develop new relationships could adversely affect our ability to grow our business and operate profitably.

***We may have difficulty completing investments and transactions that increase our capacity consistent with our growth strategy.***

We are selectively pursuing strategic acquisitions of, and in some instances joint ventures with, other healthcare providers. We may face limitations on our ability to identify sufficient acquisition or other development targets and to complete those transactions to meet goals. In the home health industry, there is significant competition among acquirors attempting to secure the acquisition of companies that have a large number of locations. In many states, the need to obtain governmental approvals, such as a CON or an approval of a change in ownership, may represent a significant obstacle to completing transactions. Additionally, in states with CON laws, it is not unusual for third-party providers to challenge initial awards of CONs, the increase in the number of approved beds in an existing CON, or expand or change the area served, and the adjudication of those challenges and related appeals may take multiple years. These factors may increase the cost to us associated with any acquisition or prevent us from completing one or more acquisitions.

***We may make investments or complete transactions that could expose us to unforeseen risks and liabilities.***

Investments, acquisitions, joint ventures or other development opportunities identified and completed may involve material cash expenditures, debt incurrence, operating losses, amortization of certain intangible assets of acquired companies, issuances of equity securities, and expenses, some of which are unforeseen, that could affect our business, financial position, results of operations and liquidity. Acquisitions, investments, and joint ventures involve numerous risks, including:

- limitations, including state CONs as well as CMS and other regulatory approval requirements, on our ability to complete such acquisitions, particularly those involving not-for-profit providers, on terms, timetables, and valuations reasonable to us;
- limitations in obtaining financing for acquisitions at a cost reasonable to us;
- difficulties integrating acquired operations, personnel, and information systems, and in realizing projected revenues, efficiencies and cost savings, or returns on invested capital;
- entry into markets, businesses or services in which we may have little or no experience;
- diversion of business resources or management's attention from ongoing business operations; and
- exposure to undisclosed or unforeseen liabilities of acquired operations, including liabilities for failure to comply with healthcare laws and anti-trust considerations in specific markets.

In addition to those development activities, we intend to build new, or de novo, inpatient rehabilitation hospitals. The construction of new hospitals involves numerous risks, including the receipt of all zoning and other regulatory approvals, such as a CON where necessary, construction delays and cost over-runs and unforeseen environmental liability exposure. Once built, new hospitals must undergo the state and Medicare certification process, the duration of which may be beyond our control. We may be unable to operate newly constructed hospitals as profitably as expected, and those hospitals may involve significant additional cash expenditures and operating expenses that could, in the aggregate, have an adverse effect on our business, financial position, results of operations, and cash flows.

***We may not be able to successfully integrate acquisitions or realize the anticipated benefits of any acquisitions.***

We may undertake strategic acquisitions from time to time. For example, we have recently completed the acquisitions of Encompass, the operations of Reliant Hospital Partners, LLC and affiliated entities ("Reliant") and the home care operations of CareSouth Health System, Inc. ("CareSouth"), which are discussed in Item 1, *Business* , "Overview of the Company." Prior to consummation of any acquisition, the acquired business will have operated independently of us, with its own procedures, corporate culture, locations, employees and systems. We will fold those businesses into our existing business as one combined organization, for example utilizing certain common information systems, operating procedures, administrative functions, financial and internal controls and human resources practices. There may be substantial difficulties, costs and delays involved in the integration of an acquired business with our business. Additionally, an acquisition could cause disruption to our business and operations and our relationships with customers, employees and other parties. In some cases, the acquired business has itself grown through acquisitions, as was the case with Encompass, Reliant and CareSouth, and there may be legacy systems, operating policies and procedures, financial and administrative practices yet to be fully integrated. To the extent we are attempting to integrate multiple businesses at the same time, we may not be able to do so as efficiently or effectively as we would prefer. The failure to successfully integrate on a timely basis any acquired business with our existing business could have an adverse effect on our business, financial position, results of operations, and cash flows.

We anticipate our acquisitions, including Encompass, Reliant and CareSouth, will result in benefits including, among other things, increased revenues and an enhanced ability to provide a continuum of facility-based and home-based post-acute healthcare services. However, acquired businesses may not contribute to our revenues or earnings to the extent anticipated, and any synergies we expect may not be realized after the acquisitions have been completed. If the acquired businesses underperform and such underperformance is other than temporary, we may be required to take an impairment charge. Failure to achieve the anticipated benefits could result in the inability to meet the financial ratios and financial condition tests under our credit agreement and diversion of management's time and energy and could have an adverse effect on our business, financial position, results of operations, and cash flows.

***Competition for staffing, shortages of qualified personnel, union activity or other factors may increase our labor costs and reduce profitability.***

Our operations are dependent on the efforts, abilities, and experience of our medical personnel, such as physical therapists, occupational therapists, speech pathologists, nurses, and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified personnel responsible for the daily operations of each of our locations. In some markets, the lack of availability of medical personnel is a significant operating issue facing all healthcare providers. A shortage may require us to continue to enhance wages and benefits to recruit and retain qualified personnel or to contract for more expensive temporary personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate.

If our labor costs increase, we may not experience reimbursement rate or pricing increases generally to offset these additional costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased labor costs is limited. In particular, if labor costs rise at an annual rate greater than our net annual market basket update from Medicare or we continue to experience a shift in our payor mix to lower rate payors such as Medicaid, our results of operations and cash flows will be adversely affected. Conversely, decreases in reimbursement revenues, such as with sequestration, may limit our ability to increase compensation or benefits to the extent necessary to retain key employees, in turn increasing our turnover and associated costs. Union activity is another factor that may contribute to increased labor costs. We currently have a minimal number of union employees, so an increase in labor union activity could have a significant impact on our labor costs. Our failure to recruit and retain qualified medical personnel, or to control our labor costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

***We are a defendant in various lawsuits, and may be subject to liability under qui tam cases, the outcome of which could have a material adverse effect on us.***

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are a defendant in a number of lawsuits. The material lawsuits and investigations, including the subpoenas received from HHS-OIG, are discussed in Note 17, *Contingencies and Other Commitments* , to the accompanying consolidated financial statements. Substantial damages, fines, or other remedies assessed against us or agreed to in settlements could have a material adverse effect on our business, financial position, results of operations, and cash flows. Additionally, the costs of defending litigation and investigations, even if frivolous or nonmeritorious, could be significant.

Home care services, by their very nature, are provided in an environment, the patient’s place of residence, that is not in the substantial control of the healthcare provider. Accordingly, home care involves an increased level of associated risk of general and professional liability. On any given day, we have thousands of nurses, therapists and other care providers driving to and from the homes of patients where they deliver care. We cannot predict the impact any claims arising out of the travel, the home visits or the care being provided, regardless of their ultimate outcome, could have on our business or reputation or on our ability to attract and retain patients and employees. We also cannot predict the adequacy of any reserves for such losses or recoveries from any insurance or re-insurance policies.

We insure a substantial portion of our professional liability, general liability, and workers’ compensation liability risks, which may not include risks related to regulatory fines and penalties, through our captive insurance subsidiary, as discussed further in Note 9, *Self-Insured Risks* , to the accompanying consolidated financial statements. Changes in the number of these liability claims and the cost to resolve them impact the reserves for these risks. A variance between our estimated and actual number of claims or average cost per claim could have a material impact, either favorable or unfavorable, on the adequacy of the reserves for these liability risks, which could have an effect on our financial position and results of operations.

The False Claims Act allows private citizens, called “relators,” to institute civil proceedings alleging violations of the False Claims Act. These lawsuits, which may be initiated by “whistleblowers,” can involve significant monetary damages, fines, attorneys’ fees and the award of bounties to the relators who successfully bring these suits and to the government. These *qui tam* cases are sealed by the court at the time of filing. Prior to the lifting of the seal by the court, the only parties typically privy to the information contained in the complaint are the relator, the federal government, and the presiding court. It is possible that *qui tam* lawsuits have been filed against us and that those suits remain under seal or that we are unaware of such filings or prevented by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed *qui tam* cases brought pursuant to the False Claims Act.

***The proper function, availability, and security of our information systems are critical to our business.***

We are and will remain dependent on the proper function, availability and security of our and third-party information systems, including our electronic clinical information system (the "CIS") which plays a substantial role in the operations of the hospitals in which it is installed and the information systems currently in use by Encompass. We undertake substantial measures to protect the safety and security of our information systems and the data maintained within those systems, and we periodically test the adequacy of our security and disaster recovery measures. We have implemented administrative, technical and physical controls on our systems and devices in an attempt to prevent unauthorized access to that data, which includes patient information subject to the protections of the Health Insurance Portability and Accountability Act of 1996 and the Health Information Technology for Economic and Clinical Health Act and other sensitive information. For additional discussion of these laws, see Item 1, *Business* , "Regulation."

As part of our efforts, we may be required to expend significant capital to protect against the threat of security breaches, including cyber attacks, or to alleviate problems caused by breaches, including unauthorized access to or theft of patient data and protected health information stored in our information systems and the introduction of computer malware to our systems. We also attempt to provide our employees training and regular reminders on important measures they can take to prevent breaches. However, given the rapidly evolving nature and proliferation of cyber threats, there can be no assurance our safety and security measures or network security or other controls will detect and prevent security or data breaches, including cyber-attacks, in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations. For example, it has been widely reported that many well-organized international interests are targeting the theft of patient information through the use of advance persistent threats. Accordingly, we may be vulnerable to losses associated with the improper functioning, security breach or unavailability of our information systems as well as any systems used in acquired operations.

A compromise of our safety and security measures, or network security or other controls, or of those businesses with whom we interact, which results in confidential information being accessed, obtained, damaged or used by unauthorized or improper persons, could harm our reputation and expose us to significant remedial costs as well as regulatory actions and claims from patients, financial institutions, and other persons, any of which could adversely affect our business, financial position, results of operations and cash flows. Moreover, a security breach could require that we expend significant resources to repair or improve our information systems and infrastructure, and could distract management and other key personnel from performing their primary operational duties. In the case of a material breach or cyber-attack, the associated expenses and losses may exceed our current insurance coverage for such events. Failure to maintain proper function, security, or availability of our information systems or protect our data against unauthorized access could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Our CIS is subject to a licensing, implementation, technology hosting, and support agreement with Cerner Corporation. In June 2011, we entered into an agreement with Cerner to begin a company-wide implementation of this system in 2012. As of December 31, 2015, we have installed the CIS in 83 hospitals. We expect to complete installation in our existing hospitals by the end of 2017. Similarly, Encompass has an agreement to license, host, and support its comprehensive management and clinical information system, Homecare Homebase. Our inability, or the inability of software vendors, to continue to maintain and upgrade our information systems, software, and hardware could disrupt or reduce the efficiency of our operations, including affecting patient care. In addition, costs, unexpected problems, and interruptions associated with the implementation or transition to new systems or technology or with adequate support of those systems or technology across multiple hospitals could have a material adverse effect on our business, financial position, results of operations, and cash flows.

***Successful execution of our current business plan depends on our key personnel.***

The success of our current business plan depends in large part upon the leadership and performance of our executive management team and key employees and our ability to retain and motivate these individuals. We rely upon their ability, expertise, experience, judgment, discretion, integrity and good faith. With respect to our newly acquired home health business, we rely on the experience and expertise of Encompass' management team in that industry. In order to retain this experience and expertise, we have entered into three-year employment agreements that include noncompetition and other restrictive covenants with certain key senior management personnel of Encompass. However, there is no guarantee we will be able to retain these individuals or other members of Encompass' management team. If we are unable to retain these members of Encompass' senior management, we could face increased difficulties in operating Encompass and in expanding our presence in home health and hospice.

There can be no assurance that we will retain our key executives and employees or that we can attract or retain other highly qualified individuals in the future. If we lose key personnel, we may be unable to replace them with personnel of comparable experience in, or knowledge of, the healthcare provider industry or our specific post-acute segments. The loss of

the services of any of these individuals could prevent us from successfully executing our business plan and could have a material adverse effect on our business and results of operations.

***Our leverage or level of indebtedness may have negative consequences for our business, and we may incur additional indebtedness in the future.***

As of December 31, 2015 , we have approximately $2.9 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding $288.2 million in capital leases). See Note 8, *Long-term Debt* , to the accompanying consolidated financial statements. Subject to specified limitations, our credit agreement and the indentures governing our debt securities permit us and our subsidiaries to incur material additional debt. If new debt is added to our current debt levels, the risks described here could intensify.

Our indebtedness could have important consequences, including:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult for us to react quickly to, changing conditions;
- placing us at a competitive disadvantage compared with competing providers that have less debt; and
- exposing us to risks inherent in interest rate fluctuations for outstanding amounts under our credit facility, which could result in higher interest expense in the event of increases in interest rates, as discussed in Item 7A, *Quantitative and Qualitative Disclosures about Market Risk.*

We are subject to contingent liabilities, prevailing economic conditions, and financial, business, and other factors beyond our control. Although we expect to make scheduled interest payments and principal reductions, we cannot provide assurance that changes in our business or other factors will not occur that may have the effect of preventing us from satisfying obligations under our debt instruments. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other needs or have an unanticipated cash payment obligation, we may have to refinance all or a portion of our debt, obtain additional financing or reduce expenditures or sell assets we deem necessary to our business. We cannot provide assurance these measures would be possible or any additional financing could be obtained.

***The restrictive covenants in our credit agreement and the indentures governing our senior notes could affect our ability to execute aspects of our business plan successfully.***

The terms of our credit agreement and the indentures governing our senior notes do, and our future debt instruments may, contain various provisions that limit our ability and the ability of certain of our subsidiaries to, among other things:

- incur or guarantee indebtedness;
- pay dividends on, or redeem or repurchase, our capital stock; or repay, redeem or repurchase our subordinated obligations;
- issue or sell certain types of preferred stock;
- make investments;
- incur obligations that restrict the ability of our subsidiaries to make dividends or other payments to us;
- sell assets;
- engage in transactions with affiliates;
- create certain liens;
- enter into sale/leaseback transactions; and
- merge, consolidate, or transfer all or substantially all of our assets.

These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. For additional discussion of our material debt covenants, see the "Liquidity and Capital Resources" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , and Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

In addition, our credit agreement requires us to maintain specified financial ratios and satisfy certain financial condition tests. See the "Liquidity and Capital Resources" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , and Note 8, *Long-term Debt* , to the accompanying consolidated financial statements. Although we remained in compliance with the financial ratios and financial condition tests as of December 31, 2015, we cannot provide assurance we will continue to do so. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. A severe downturn in earnings, failure to realize anticipated earnings from acquisitions, or, if we have outstanding borrowings under our credit facility at the time, a rapid increase in interest rates could impair our ability to comply with those financial ratios and financial condition tests and we may need to obtain waivers from the required proportion of the lenders to avoid being in default. If we try to obtain a waiver or other relief from the required lenders, we may not be able to obtain it or such relief might have a material cost to us or be on terms less favorable than those in our existing debt. If a default occurs, the lenders could exercise their rights, including declaring all the funds borrowed (together with accrued and unpaid interest) to be immediately due and payable, terminating their commitments or instituting foreclosure proceedings against our assets, which, in turn, could cause the default and acceleration of the maturity of our other indebtedness. A breach of any other restrictive covenants contained in our credit agreement or the indentures governing our senior notes would also (after giving effect to applicable grace periods, if any) result in an event of default with the same outcome.

As of December 31, 2015 , approximately 75% of our consolidated *Property and equipment, net* was held by HealthSouth Corporation and its guarantor subsidiaries under our credit agreement. See Note 8, *Long-term Debt* , and Note 20, *Condensed Consolidating Financial Information* , to the accompanying consolidated financial statements, and Item 2, *Properties* .

***Uncertainty in the capital markets could adversely affect our ability to carry out our development objectives.***

In recent years, the global and sovereign credit markets have experienced significant disruptions, and the debt ceiling and federal budget disputes in the United States affected capital markets. Future market shocks could negatively affect the availability or terms of certain types of debt and equity financing, including access to revolving lines of credit. Future business needs combined with market conditions at the time may cause us to seek alternative sources of potentially less attractive financing and may require us to adjust our business plan accordingly. For example, tight credit markets, such as might result from further turmoil in the sovereign debt markets, would likely make additional financing more expensive and difficult to obtain. The inability to obtain additional financing at attractive rates or prices could have a material adverse effect on our financial performance or our growth opportunities.

As a result of credit market uncertainty, we also face potential exposure to counterparties who may be unable to adequately service our needs, including the ability of the lenders under our credit agreement to provide liquidity when needed. We monitor the financial strength of our depositories, creditors, and insurance carriers using publicly available information, as well as qualitative inputs.

***If any of our hospitals or home health or hospice agencies fail to comply with the Medicare conditions of participation, that hospital or agency could be terminated from the Medicare program.***

Each of our hospitals and home health and hospice agencies must comply with extensive conditions of participation for certification in the Medicare program. If any fail to meet any of the Medicare conditions of participation, we may receive a notice of deficiency from the applicable state survey agency. If that hospital or agency then fails to institute an acceptable plan of correction and correct the deficiency within the applicable correction period, it could lose the ability to bill Medicare. For example, the conditions require that hospice agencies have a certain number of volunteers. A hospital or agency could be terminated from the Medicare benefit if it fails to address the deficiency within the applicable correction period. If CMS terminates one hospital or agency, it may increase its scrutiny of others under common control. Additionally, in October 2014, CMS proposed revisions to the Medicare conditions of participation applicable to home health agencies and intended to provide home health agencies with enhanced flexibility while focusing provider efforts on patient services, quality of care, and quality assessment and performance improvement efforts. Any termination of one or more of our hospitals or agencies from the Medicare program for failure to satisfy the conditions of participation could adversely affect its patient service revenue and profitability and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We maintain our principal executive office at 3660 Grandview Parkway, Birmingham, Alabama. We occupy those office premises under a long-term lease which expires in March 2018. On November 30, 2015, we executed a non-binding term sheet with a developer to build and lease a new corporate office building at another location in Birmingham, Alabama. We expect to move to that location in early 2018. We have notified the landlord for our current office lease that we will not be renewing that lease but we have an option to extend that lease for up to 75 days in the event construction of the new building is not completed as expected.

In addition to our principal executive office, as of December 31, 2015 , we leased or owned through various consolidated entities 358 business locations to support our operations. Our hospital leases, which represent the largest portion of our rent expense, generally have 3 to 15 years remaining on their current terms and one or more renewal options for customarily an additional 5-year term. Some renewal options provide for shorter additional terms. Our consolidated entities associated with our leased hospitals are generally responsible for property taxes, property and casualty insurance, and routine maintenance expenses. Our home health and hospice business is based in Dallas, Texas where it leases office space for corporate and administrative functions. The remaining home health and hospice locations are in the localities served by that business and are subject to relatively small space leases, approximately 2,700 square feet on average. Those space leases are typically less than five years in term. We do not believe any one of our individual properties is material to our consolidated operations.

The following table sets forth information regarding our hospital properties (excluding the one hospital that has 41 licensed beds and operates as a joint venture which we account for using the equity method of accounting) and our Encompass locations as of December 31, 2015 :

| State | Licensed Beds | Number of Hospitals | | | | Encompass Locations |
|---|---|---|---|---|---|---|
| | | Building and Land Owned | Building Owned and Land Leased | Building and Land Leased | Total | |
| Alabama *+ | 383 | 1 | 3 | 2 | 6 | 4 |
| Arizona | 335 | 1 | 1 | 3 | 5 | 3 |
| Arkansas + | 307 | 2 | 1 | 1 | 4 | 3 |
| California | 134 | 1 | — | 1 | 2 | — |
| Colorado | 104 | 1 | — | 1 | 2 | 5 |
| Connecticut | — | — | — | — | — | 1 |
| Delaware * | 34 | — | 1 | — | 1 | — |
| Florida * | 897 | 9 | 1 | 2 | 12 | 16 |
| Georgia *+ | 150 | 2 (1) | — | 1 | 3 | 20 |
| Idaho | — | — | — | — | — | 11 |
| Illinois * | 61 | — | 1 | — | 1 | — |
| Indiana | 103 | — | — | 1 | 1 | — |
| Kansas | 242 | 1 | — | 2 | 3 | 9 |
| Kentucky *+ | 312 | 2 | 1 | — | 3 | 1 |
| Louisiana | 47 | 1 | — | — | 1 | — |
| Maine * | 100 | — | — | 1 | 1 | — |
| Maryland *+ | 54 | 1 | — | — | 1 | 1 |
| Massachusetts * | 560 | 2 | — | 2 | 4 | 2 |
| Missouri * | 156 | — | 2 | — | 2 | — |
| Nevada | 219 | 2 | — | 1 | 3 | 2 |
| New Hampshire * | 50 | — | 1 | — | 1 | — |
| New Jersey * | 199 | 1 | 1 | 1 | 3 | — |
| New Mexico | 87 | 1 | — | — | 1 | 7 |
| North Carolina + | — | — | — | — | — | 6 |
| Ohio | 110 | — | — | 2 | 2 | — |
| Oklahoma | — | — | — | — | — | 20 |
| Oregon | — | — | — | — | — | 2 |
| Pennsylvania | 734 | 5 | — | 4 | 9 | 3 |
| Puerto Rico * | 72 | — | — | 2 | 2 | — |
| South Carolina *+ | 343 | 1 | 4 | — | 5 | 2 |
| Tennessee *+ | 435 | 5 | 3 | — | 8 | 5 |
| Texas | 1,538 | 12 | 2 | 9 | 23 | 63 |
| Utah | 84 | 1 | — | — | 1 | 15 |
| Virginia * | 286 | 2 | 1 | 3 | 6 | 12 |
| West Virginia * | 268 | 1 | 3 | — | 4 | — |
| | 8,404 | 55 | 26 | 39 | 120 | 213 (2) |

* Hospital certificate of need state or U.S. territory

\+ Home health certificate of need state or U.S. territory

(1) The inpatient rehabilitation hospitals in Augusta and Newnan, Georgia are parties to industrial development bond financings that reduce the *ad valorem* taxes payable by each hospital. In connection with each of these bond structures, title to the related property is held by the local development authority. We lease the related hospital property and hold the bonds issued by that authority, the payment on which equals the amount payable under the lease. We may terminate each bond financing and the associated lease at any time at our option without penalty, and fee title to the related hospital property will return to us.

(2) This total includes (1) 179 locations where adult home health services are provided, (2) 7 locations where pediatric home health services are provided, and (3) 27 locations where hospice services are provided. In addition, two of the adult home health locations operate as joint ventures which we account for using the equity method of accounting.

Our principal executive office, hospitals, and other properties are suitable for their respective uses and are, in all material respects, adequate for our present needs. Information regarding the utilization of our licensed beds and other operating statistics can be found in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

## Item 3. Legal Proceedings

Information relating to certain legal proceedings in which we are involved is included in Note 17, *Contingencies and Other Commitments* , to the accompanying consolidated financial statements, which is incorporated herein by reference.

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Market Information

Shares of our common stock trade on the New York Stock Exchange under the ticker symbol "HLS." The following table sets forth the high and low sales prices per share for our common stock as reported on the NYSE from January 1, 2014 through December 31, 2015 :

| | High | Low |
|---|---|---|
| **2014** | | |
| First Quarter | $ 35.98 | $ 29.82 |
| Second Quarter | 37.68 | 33.05 |
| Third Quarter | 42.41 | 35.29 |
| Fourth Quarter | 42.00 | 36.10 |
| | | |
| **2015** | | |
| First Quarter | $ 46.92 | $ 36.46 |
| Second Quarter | 48.13 | 41.37 |
| Third Quarter | 48.37 | 36.71 |
| Fourth Quarter | 39.89 | 32.55 |

### Holders

As of February 16, 2016 , there were 89,777,044 shares of HealthSouth common stock issued and outstanding, net of treasury shares, held by approximately 8,762 holders of record.

### Dividends

On October 15, 2013, we paid the first cash dividend, $0.18 per share, on our common stock, and we paid the same per share dividend quarterly through July 15, 2014. On July 17, 2014, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.21 per share on our common stock that was paid on October 15, 2014, and we paid the same per share quarterly dividend through July 15, 2015. On July 16, 2015, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.23 per share that was paid on October 15, 2015, and we paid the same per share quarterly dividend on January 15, 2016. We expect quarterly dividends to continue to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board each quarter after consideration of various factors, including our capital position and alternative uses of funds.

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement and (2) our senior secured leverage ratio remains less than or equal to 1.75x. The terms of our senior note indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture's restricted payments covenant to declare and pay dividends. We believe we currently have adequate capacity under these covenants to pursue the dividend strategy described in this report for the foreseeable future based on the capacity as of the date of this report and anticipated restricted payments. See Note 8, *Long-term Debt ,* to the accompanying consolidated financial statements.

### Recent Sales of Unregistered Securities

None.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The information required by Item 201(d) of Regulation S-K is provided under Item 12, *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* , “Equity Compensation Plans,” and incorporated here by reference.

**Purchases of Equity Securities**

The following table summarizes our repurchases of equity securities during the three months ended December 31, 2015 :

| Period | Total Number of Shares (or Units) Purchased | | Average Price Paid per Share (or Unit) ($) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs [1] |
|---|---|---|---|---|---|
| October 1 through October 31, 2015 | 893 | [2] | $ 36.38 | — | $206,944,707 |
| November 1 through November 30, 2015 | 808,743 | [3] | 34.65 | 808,633 | 178,922,337 |
| December 1 through December 31, 2015 | 552,341 | | 34.64 | 552,341 | 159,787,934 |
| Total | 1,361,977 | | $ 34.65 | 1,360,974 | |

[1] On October 28, 2013, we announced our board of directors authorized the repurchase of up to $200 million of our common stock. On February 14, 2014, our board of directors approved an increase in this common stock repurchase authorization from $200 million to $250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

[2] Except as noted in the following sentence, an employee tendered these shares as payment of the tax liability incident to the vesting of previously awarded shares of restricted stock. In October, 306 shares were purchased pursuant to our Directors’ Deferred Stock Investment Plan. This plan is a nonqualified deferral plan allowing non-employee directors to make advance elections to defer a fixed percentage of their director fees. The plan administrator acquires the shares in the open market which are then held in a rabbi trust. The plan provides that dividends paid on the shares held for the accounts of the directors will be reinvested in shares of our common stock which will also be held in the trust. The directors’ rights to all shares in the trust are nonforfeitable, but the shares are only released to the directors after departure from our board.

[3] An employee tendered 110 shares as payment of the exercise price and tax liability incident to the net settlement of an option exercise.

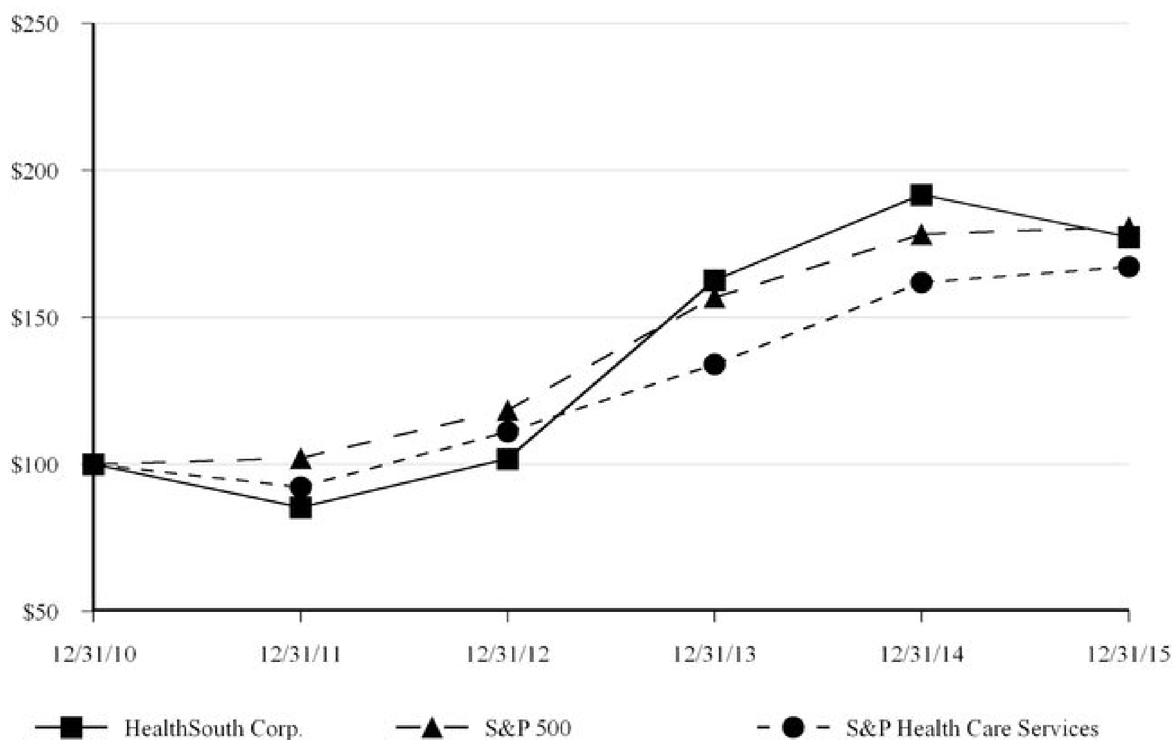
**Company Stock Performance**

Set forth below is a line graph comparing the total returns of our common stock, the Standard & Poor's 500 Index ("S&P 500"), and the S&P Health Care Services Select Industry Index ("SPSIHP"), an equal-weighted index of at least 35 companies in healthcare services that are also part of the S&P Total Market Index and subject to float-adjusted market capitalization and liquidity requirements. Our compensation committee has in prior years used the SPSIHP as a benchmark for a portion of the awards under our long-term incentive program. The graph assumes $100 invested on December 31, 2010 in our common stock and each of the indices. The returns below assume reinvestment of dividends paid on the related common stock. We have paid a quarterly cash dividend on our common stock since October 2013.

The information contained in the performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC nor shall such information be deemed incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such filing.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of HealthSouth's common stock. Research Data Group, Inc. provided the data for the indices presented below. We assume no responsibility for the accuracy of the indices' data, but we are not aware of any reason to doubt its accuracy.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**
Among HealthSouth Corporation, the S&P 500 Index, and the S&P Health Care Services Select Industry Index




| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | Base Period | Cumulative Total Return | | | | |
| Company/Index Name | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| HealthSouth | 100.00 | 85.32 | 101.93 | 162.61 | 191.71 | 177.34 |
| Standard & Poor's 500 Index | 100.00 | 102.11 | 118.45 | 156.82 | 178.29 | 180.75 |
| S&P Health Care Services Select Industry Index | 100.00 | 92.24 | 111.03 | 134.03 | 161.92 | 167.21 |

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**Item 6. Selected Financial Data**

We derived the selected historical consolidated financial data presented below for the years ended December 31, 2015 , 2014 , and 2013 from our audited consolidated financial statements and related notes included elsewhere in this filing. We derived the selected historical consolidated financial data presented below for the years ended December 31, 2012 and 2011 from our consolidated financial statements and related notes included in our Form 10-K for the year ended December 31, 2012 . Refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* and the notes to the accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial position or results of operations.

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (In Millions, Except per Share Data) | | | | |
| **Statement of Operations Data:** [1] | | | | | |
| Net operating revenues | $ 3,162.9 | $ 2,405.9 | $ 2,273.2 | $ 2,161.9 | $ 2,026.9 |
| Operating earnings [2] | 485.7 | 418.4 | 435.7 | 378.7 | 351.4 |
| Provision for income tax expense [3] | 141.9 | 110.7 | 12.7 | 108.6 | 37.1 |
| Income from continuing operations | 253.7 | 276.2 | 382.5 | 231.4 | 205.8 |
| (Loss) income from discontinued operations, net of tax [4] | (0.9) | 5.5 | (1.1) | 4.5 | 48.8 |
| **Net income** | 252.8 | 281.7 | 381.4 | 235.9 | 254.6 |
| Less: Net income attributable to noncontrolling interests | (69.7) | (59.7) | (57.8) | (50.9) | (45.9) |
| **Net income attributable to HealthSouth** | 183.1 | 222.0 | 323.6 | 185.0 | 208.7 |
| Less: Convertible perpetual preferred stock dividends | (1.6) | (6.3) | (21.0) | (23.9) | (26.0) |
| Less: Repurchase of convertible perpetual preferred stock [5] | — | — | (71.6) | (0.8) | — |
| **Net income attributable to HealthSouth common shareholders** | $ 181.5 | $ 215.7 | $ 231.0 | $ 160.3 | $ 182.7 |
| | | | | | |
| **Weighted average common shares outstanding:** [6] | | | | | |
| Basic | 89.4 | 86.8 | 88.1 | 94.6 | 93.3 |
| Diluted | 101.0 | 100.7 | 102.1 | 108.1 | 109.2 |
| **Earnings per common share:** | | | | | |
| **Basic earnings per share attributable to HealthSouth common shareholders:** | | | | | |
| Continuing operations | $ 2.03 | $ 2.40 | $ 2.59 | $ 1.62 | $ 1.39 |
| Discontinued operations | (0.01) | 0.06 | (0.01) | 0.05 | 0.52 |
| Net income | $ 2.02 | $ 2.46 | $ 2.58 | $ 1.67 | $ 1.91 |
| **Diluted earnings per share attributable to HealthSouth common shareholders:** | | | | | |
| Continuing operations | $ 1.92 | $ 2.24 | $ 2.59 | $ 1.62 | $ 1.39 |
| Discontinued operations | (0.01) | 0.05 | (0.01) | 0.05 | 0.52 |
| Net income | $ 1.91 | $ 2.29 | $ 2.58 | $ 1.67 | $ 1.91 |
| | | | | | |
| **Cash dividends per common share** [7] | $ 0.88 | $ 0.78 | $ 0.36 | $ — | $ — |
| | | | | | |
| **Amounts attributable to HealthSouth:** | | | | | |
| Income from continuing operations | $ 184.0 | $ 216.5 | $ 324.7 | $ 180.5 | $ 158.8 |
| (Loss) income from discontinued operations, net of tax | (0.9) | 5.5 | (1.1) | 4.5 | 49.9 |
| Net income attributable to HealthSouth | $ 183.1 | $ 222.0 | $ 323.6 | $ 185.0 | $ 208.7 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (In Millions) | | | | |
| **Balance Sheet Data:** [(1)] | | | | | |
| Working capital | $ 172.3 | $ 322.3 | $ 268.8 | $ 335.9 | $ 178.4 |
| Total assets [(8)] [(9)] | 4,606.1 | 3,388.3 | 2,514.1 | 2,402.4 | 2,252.6 |
| Long-term debt, including current portion [(5)] [(8)] [(9)] | 3,171.5 | 2,111.2 | 1,497.2 | 1,231.7 | 1,235.7 |
| Convertible perpetual preferred stock [(5)] | — | 93.2 | 93.2 | 342.2 | 387.4 |
| HealthSouth shareholders' equity | 611.4 | 473.2 | 344.6 | 291.0 | 116.4 |

(1) As discussed in Note 2 , *Business Combinations* , to the accompanying consolidated financial statements, we acquired the Encompass Home Health and Hospice business ("Encompass") of EHHI Holdings, Inc. on December 31, 2014. Because the acquisition took place on December 31, 2014, our consolidated results of operations prior to 2015 do not include any results of operations from Encompass. Assets acquired, liabilities assumed, and redeemable noncontrolling interests were recorded at their estimated fair values as of the acquisition date.

(2) We define operating earnings as income from continuing operations attributable to HealthSouth before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; (4) loss on interest rate swaps; and (5) income tax expense or benefit.

(3) For information related to our *Provision for income tax expense,* see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , and Note 15, *Income Taxes* , to the accompanying consolidated financial statements. During the second quarter of 2013, we entered into closing agreements with the IRS that settled federal income tax matters related to the previous restatement of our 2000 and 2001 financial statements, as well as certain other tax matters, through December 31, 2008 and recorded a net income tax benefit of approximately $115 million.

(4) *Income from discontinued operations, net of tax* in 2011 included post-tax gains from the sale of five long-term acute care hospitals and a settlement related to a previously disclosed audit of unclaimed property.

(5) During the fourth quarter of 2013, we exchanged $320 million in aggregate principal amount of newly issued 2.00% Convertible Senior Subordinated Notes due 2043 for 257,110 shares of our then outstanding 6.50% Series A Convertible Perpetual Preferred Stock. On April 23, 2015, we exercised our rights to force conversion of all remaining outstanding shares of our *Convertible perpetual preferred stock* into common stock . See Note 8, *Long-term Debt* and Note 10, *Convertible Perpetual Preferred Stock* , to the accompanying consolidated financial statements.

(6) During 2015, we repurchased 1.3 million shares of our common stock in the open market for $45.3 million. During 2014, we repurchased 1.3 million shares of our common stock in the open market for $43.1 million. In the first quarter of 2013, we completed a tender offer for our common stock whereby we repurchased approximately 9.1 million shares. See Note 16, *Earnings per Common Share* , to the accompanying consolidated financial statements.

(7) During the third quarter of 2013, our board of directors approved the initiation of a quarterly cash dividend on our common stock of $0.18 per share. In July 2014, our board of directors approved an increase in our quarterly cash dividend to $0.21 per share. In July 2015, our board of directors approved an increase in our quarterly cash dividend of $0.23 per share. See Note 16, *Earnings per Common Share* , to the accompanying consolidated financial statements.

(8) On December 31, 2014, we acquired Encompass. The total cash consideration delivered at closing was $695.5 million. We funded the cash purchase price in the acquisition entirely with draws under the revolving and expanded term loan facilities of our credit agreement. On October 1, 2015, we acquired Reliant Hospital Partners, LLC and affiliated entities. The total cash consideration delivered at closing was approximately $730 million. We funded the cash purchase price in the acquisition with proceeds from our August and September 2015 senior notes issuances and borrowings under our senior secured credit facility. On November 2, 2015, we acquired the home health agency operations of CareSouth Health System, Inc. The total cash consideration delivered at closing was approximately $170 million. We funded the cash purchase price with our term loan facility capacity and cash on hand. See Note 2, *Business Combinations* , and Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

(9) As discussed in Note 1, *Summary of Significant Accounting Policies* , "Recent Accounting Pronouncements" and Note 8, *Long-term Debt* , we adopted ASU 2015-03 and ASU No. 2015-15 on December 31, 2015, which required our debt issuance costs previously included in *Other long-term assets* to be reclassified to *Long-term debt, net of current portion* on our consolidated balance sheets. This change was applied retrospectively to all prior periods presented.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the accompanying consolidated financial statements and related notes. This MD&A is designed to provide the reader with information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our consolidated financial statements. See "Cautionary Statement Regarding Forward-Looking Statements" on page ii of this report for a description of important factors that could cause actual results to differ from expected results. See also Item 1A, *Risk Factors* .

### Executive Overview

*Our Business*

We are one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 34 states and Puerto Rico through our network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. As discussed in this Item, "Segment Results of Operations," we manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. For additional information about our business, see Item 1, *Business.*

On December 31, 2014, we completed the acquisition of EHHI Holdings, Inc. ("EHHI") and its Encompass Home Health and Hospice business ("Encompass"), which at the time consisted of 135 home health and hospice locations in 12 states. In the acquisition, we acquired, for cash, all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to HealthSouth Home Health Holdings, Inc. ("Holdings"), a subsidiary of HealthSouth and now indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. These certain sellers were members of Encompass management, including April Anthony, the Chief Executive Officer of Encompass. These sellers contributed a portion of their shares of common stock of EHHI in exchange for approximately 16.7% of the outstanding shares of common stock of Holdings. We funded the cash purchase price in the acquisition entirely with draws under the revolving and expanded term loan facilities of our credit agreement. The total cash consideration delivered at closing was $695.5 million. We view Encompass as a partnership that brings together the talent and home care experience of the existing Encompass team with all of the resources and post-acute care experience of HealthSouth.

Inpatient Rehabilitation

We are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. While our national network of inpatient hospitals stretches across 29 states and Puerto Rico, we are concentrated in the eastern half of the United States and Texas. As of December 31, 2015 , we operate 121 inpatient rehabilitation hospitals, including one hospital that operates as a joint venture which we account for using the equity method of accounting. In addition to HealthSouth hospitals, we manage three inpatient rehabilitation units through management contracts. Our inpatient rehabilitation segment represented approximately 84% of our *Net operating revenues* for the year ended December 31, 2015.

Home Health and Hospice

Encompass is the nation's fourth largest provider of Medicare-certified skilled home health services. As of December 31, 2015, Encompass provides home health and hospice services in 213 locations across 23 states. In addition, two of these home health locations operate as joint ventures which we account for using the equity method of accounting. Encompass home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. Encompass also provides specialized home care services in Texas and Kansas for pediatric patients with severe medical conditions. Encompass hospice services primarily include in-home services to terminally ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support. The Encompass home health and hospice segment represented approximately 16% of our *Net operating revenues* for the year ended December 31, 2015.

During 2015, we transitioned substantially all of HealthSouth's legacy hospital-based home health locations to Encompass. As of December 31, 2015, 23 of HealthSouth's legacy 25 agencies had been integrated into Encompass, with 12 of those locations relocated or merged into existing Encompass locations. In addition, Encompass operates one of HealthSouth's integrated agencies as two locations. We expect to be fully integrated by the end of 2016.

See Item 1, *Business* , and Item 1A, *Risk Factors* , of this report, Note 2 , *Business Combinations* , Note 8 , *Long-term Debt* , and Note 18 , *Segment Reporting* , to the accompanying consolidated financial statements, and the "Results of Operations" and "Liquidity and Capital Resources" sections of this Item.

*2015 Overview*

Our 2015 strategy focused on the following priorities:

- continuing to provide high-quality, cost-effective care to patients in our existing markets;
- achieving organic growth at our existing hospitals, home health agencies, and hospice agencies;
- expanding our services to more patients who require post-acute healthcare services by constructing and acquiring new hospitals in new markets and acquiring home health and hospice agencies in new markets;
- continuing our shareholder value-enhancing strategies such as common stock dividends and repurchases of our common stock; and
- positioning the Company for continued success in the evolving healthcare delivery system. This preparation includes continuing the installation of our electronic clinical information system in our hospitals which allows for interfaces with all major acute care electronic medical record systems and health information exchanges and participating in bundling projects and Accountable Care Organizations ("ACOs").

During 2015, *Net operating revenues* increased by 31.5% over 2014 due primarily to strong volume growth in both of our operating segments and included the effect of our acquisitions of Encompass, Reliant, and CareSouth (see Note 2, *Business Combinations* , to the accompanying consolidated financial statements).

Within our inpatient rehabilitation segment, discharge growth of 10.9% coupled with a 1.1% increase in net patient revenue per discharge in 2015 generated 11.6% growth in revenue from our hospitals compared to 2014. Discharge growth included a 3.2% increase in same-store discharges. Our inpatient rehabilitation quality and outcome measures, as reported through the Uniform Data System for Medical Rehabilitation (the "UDS"), remained well above the average for hospitals included in the UDS database.

The results of operations for our home health and hospice segment in 2014 included only the results of HealthSouth's legacy hospital-based home health agencies. Thus, year-over-year growth in all operating results and performance metrics resulted from our acquisition of Encompass. The quality of patient care star rating for our home health agencies continued to be well above the national average, as reported by the United States Centers for Medicare and Medicaid Services ("CMS"). In addition, 30-day readmission rates at our home health agencies continued to be well below the national average, as reported by Avalere Health and the Association for Home Health Quality.

We experienced much success with our growth efforts in 2015. Specifically, in October 2015, we completed the previously announced acquisition of the operations of Reliant Hospital Partners, LLC and affiliated entities ("Reliant"). Reliant operated a portfolio of 11 inpatient rehabilitation hospitals in Texas, Massachusetts, and Ohio with a total of 902 beds. All of the Reliant hospitals are leased, and seven of the leases are treated as capital leases for accounting purposes. We assumed all of these lease obligations. The amount of the capital lease obligation initially recognized on our balance sheet was approximately $210 million. At closing, one Reliant hospital entity had a remaining minority limited partner interest of 0.5%. The cash purchase price was reduced by the estimated fair value of this interest. We funded the cash purchase price in the Reliant acquisition with proceeds from our August and September 2015 senior notes issuances (as discussed below) and borrowings under our senior secured credit facility. The total cash consideration delivered at closing was approximately $730 million.

We believe this acquisition complements our existing networks in the highly competitive Houston, Dallas-Fort Worth, and Austin markets while providing entry into new markets in Abilene, Texas; Dayton, Ohio; and the greater Boston metropolitan areas. In 2014, Reliant's operations generated revenues of approximately $249 million. The acquisition of the operations of Reliant were immediately accretive, excluding transaction costs, to our earnings per share.

In addition to completing the Reliant acquisition to expand our portfolio of inpatient rehabilitation hospitals, we:

- began operating the inpatient rehabilitation hospital at Memorial University Medical Center in Savannah, Georgia with our joint venture partner, Memorial Health, on April 1, 2015. The joint venture will build a new, 50-bed replacement inpatient rehabilitation hospital, which is expected to be completed in the first half of 2016;
- acquired Cardinal Hill Rehabilitation Hospital ("Cardinal Hill"), comprised of 158 licensed inpatient rehabilitation beds and 74 licensed skilled nursing beds, in Lexington, Kentucky on May 1, 2015;
- entered into an agreement, in May 2015, with West Tennessee Healthcare to form a joint venture to own and operate a 48-bed inpatient rehabilitation hospital in Jackson, Tennessee. The agreement calls for the relocation of the existing inpatient rehabilitation unit at Jackson-Madison County General Hospital to a free-standing hospital to be built by the joint venture, as well as joint ownership of our existing Cane Creek Rehabilitation Hospital in Martin, Tennessee. Under the agreement, HealthSouth assumed management of the existing rehabilitation unit on January 1, 2016. Construction of the new inpatient rehabilitation hospital will begin in 2016, once the required state regulatory approvals are obtained;
- entered into an agreement, in June 2015, with Mount Carmel Health System to begin construction of a new inpatient rehabilitation hospital in Westerville, Ohio. Construction of the 60-bed joint venture hospital is expected to be completed by the first quarter of 2017;
- formed a joint venture, in June 2015, with St. John Health System to own and operate a 40-bed inpatient rehabilitation hospital in Broken Arrow, Oklahoma. In the first quarter of 2016, the joint venture plans to begin construction of the new 40-bed, free-standing hospital, with construction expected to be completed in the first quarter of 2017;
- entered into an agreement, in June 2015, with CHI St. Vincent Hot Springs, a Catholic Health Initiatives' hospital, to jointly build, own, and operate a 40-bed inpatient rehabilitation hospital in Hot Springs, Arkansas. Initially, the joint venture will own and operate the 20-bed inpatient rehabilitation unit currently located on the campus of CHI St. Vincent Hot Springs. The joint venture's operation of this unit began in February 2016, and the unit was expanded to 27 beds. Additionally, the joint venture began construction of the new hospital in the fourth quarter of 2015, with construction expected to be completed in the third quarter of 2016;
- entered into an agreement, in November 2015, with St. Joseph Health System, a Catholic Health Initiatives' hospital, to jointly own and operate a 49-bed inpatient rehabilitation hospital in Bryan, Texas. The joint venture's operation of this hospital is expected to begin in the second half of 2016 once the required state regulatory approvals are obtained;
- began accepting patients at our newly built, 40-bed inpatient rehabilitation hospital in Franklin, Tennessee in December 2015; and
- continued development of the following de novo hospitals:

| Location | # of Beds | Actual / Expected Construction Start Date | Expected Operational Date |
|---|---|---|---|
| Modesto, California | 50 | Q1 2015 | Q2 2016 |
| Murrieta, California* | 50 | Q2 2017 | Q4 2018 |

*In August 2014, we acquired land and began the design and permitting process to build an inpatient rehabilitation hospital.

We also continued our growth efforts in our home health and hospice segment. In November 2015, Encompass completed its previously announced acquisition of the home health agency operations of CareSouth Health System, Inc. ("CareSouth") for a cash purchase price of approximately $170 million. CareSouth operated a portfolio of 44 home health locations and 3 hospice locations in 7 states (35 of these locations are in CON states) and generated revenues of approximately $104 million in 2014. In addition, two of these home health locations operate as joint ventures which we account for using the equity method of accounting. We funded the cash purchase price in the acquisition with our term loan facility capacity and cash on hand.

The CareSouth acquisition enables HealthSouth to leverage the operating platform of Encompass across home health locations in the new markets of Alabama, Georgia, North Carolina, South Carolina, and Tennessee. CareSouth also improves Encompass' market share position in the key states of Florida and Virginia. Upon completion of this transaction, Encompass became the fourth largest home health provider in Virginia and the eighth largest home health provider in Florida. These new home health locations overlap (within a 30-mile radius) with 14 of HealthSouth's existing inpatient rehabilitation hospitals. The addition of these assets allow HealthSouth to better serve the post-acute needs of patients in those markets by offering both facility-based and home-based post-acute services. Post the Reliant and CareSouth acquisitions, we have Encompass home health locations in 71 of HealthSouth's 121 IRF markets, or 59% overlap.

In addition to completing the CareSouth acquisition, in 2015, we opened four home health locations and two hospice locations and acquired ten home health locations and two hospice locations. The acquired locations included:

- Integrity Home Health Care, Inc. - two locations in the Las Vegas, Nevada area (March 2015);
- Harvey Home Health Services, Inc. - one location in Houston, Texas (April 2015);
- Heritage Home Health, LLC - one location in Texarkana, Arkansas (May 2015);
- Cardinal Hill - one location in Lexington, Kentucky (May 2015);
- Alliance Home Health - two locations in the Fayetteville, Arkansas area (June 2015);
- Southern Utah Home Health, Inc. - two home health locations and two hospice locations in southern Utah (July 2015); and
- Orthopedic Rehab Specialist, LLC - one location in Ocala, Florida (July 2015).

To support our growth efforts, we took the following steps to increase the capacity and flexibility of our balance sheet.

- In January 2015, we issued an additional $400 million of our 5.75% Senior Notes due 2024 at a price of 102% of the principal amount and used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility.
- In March 2015, we issued $300 million of 5.125% Senior Notes due 2023 at a price of 100% of the principal amount and, in April 2015, used the net proceeds from the issuance along with cash on hand to redeem all the outstanding principal of our 8.125% Senior Notes due 2020.
- In June 2015, we amended our credit agreement to (1) provide that the leverage ratio financial covenant be calculated on a pro forma basis to include the effects of investments, acquisitions, mergers, and other operational changes and (2) increase the amount of specifically permitted capital lease obligations from $200 million to $350 million.
- In July 2015, we amended our credit agreement to (1) add $500 million of new term loan facilities to our existing $600 million revolving credit facility and $195 million of outstanding term loans, (2) change the maximum leverage ratio in the financial covenants applicable for the period July 2015 through June 2017 from 4.25x to 4.50x and to 4.25x from then until maturity, and (3) extend the maturity date for all borrowings to July 2020. Under the terms of the amendment, our issuance of additional senior notes in August 2015 and September 2015, as discussed below, reduced our availability under the new term loan facilities to $250 million.
- In August 2015, we issued an additional $350 million of our 5.75% Senior Notes due 2024 at a price of 100.50% of the principal amount and used the net proceeds from the issuance to reduce borrowings under our revolving credit facility and, in October 2015, to fund a portion of the Reliant acquisition.
- In September 2015, we issued $350 million of 5.75% Senior Notes due 2025 at a price of 100% of the principal amount and, in October 2015, used the net proceeds from the issuance to fund a portion of the Reliant acquisition.
- In November 2015, we redeemed $50 million of the outstanding principal amount of our existing 7.75% Senior Notes due 2022 using borrowings under our senior secured credit facility. Pursuant to the terms of these notes, this optional redemption was made at a price of 103.875%, which resulted in a total cash outlay of approximately $52 million.

For additional information regarding these actions, see Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements and the "Liquidity and Capital Resources" section of this Item.

*Business Outlook*

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

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

We have invested considerable resources into clinical and management systems and protocols that have allowed us to consistently produce high-quality outcomes for our patients while continuing to contain cost growth. Our proprietary hospital management reporting system aggregates data from each of our key business systems into a comprehensive reporting package used by the management teams in our hospitals, as well as executive management, and allows them to analyze data and trends and create custom reports on a timely basis. Our commitment to technology also includes the on-going implementation of our rehabilitation-specific electronic clinical information system. As of December 31, 2015, we had installed this system in 83 of our 121 hospitals. We believe this system will improve patient care and safety, enhance staff recruitment and retention, and set the stage for connectivity with other providers and health information exchanges. Our home health and hospice segment also uses information technology to enhance patient care and manage the business by utilizing Homecare Homebase SM , a comprehensive information platform that allows home health providers to process clinical, compliance, and marketing information as well as analyze data and trends for management purposes using custom reports on a timely basis. This allows our home health segment to manage the entire patient work flow and provide valuable data for health systems, payors, and ACO partners. We are currently the home health provider to one ACO serving approximately 20,000 patients and are exploring several other participation opportunities.

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

Longer-term, the nature and timing of the transformation of the current healthcare system to coordinated care delivery and payment models is uncertain and will likely remain so for some time, as the development of new delivery and payment systems will almost certainly require significant time and resources. Furthermore, many of the alternative approaches being explored may not work as intended. However, as outlined in the "Key Challenges—Changes to Our Operating Environment Resulting from Healthcare Reform" section below, our goal is to position the Company in a prudent manner to be responsive to industry shifts. We have invested in our core business and created an infrastructure that enables us to provide high-quality care on a cost-effective basis. We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2020. Our balance sheet remains strong and includes a substantial portfolio of owned real estate. We have significant availability under our revolving credit facility, and we continue to generate strong cash flows from operations. Importantly, we have flexibility with how we choose to deploy our cash and create value for shareholders, including repayments of long-term debt, repurchases of our common stock, bed additions, de novos, acquisitions of inpatient rehabilitation hospitals, home health agencies, and hospice agencies, and common stock dividends. While our financial leverage increased as a result of the Encompass, Reliant and CareSouth transactions, we anticipate in the longer term reducing our financial leverage based on growth of Adjusted EBITDA and an allocation of a portion of our free cash flow to debt reduction.

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

*Key Challenges*

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

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

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

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

  Concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both, in 2016 and beyond. Additionally, many legislators in the United States House of Representatives and the United States Senate continue to express the policy objective of modifying or repealing the Patient Protection and Affordable Care Act (as subsequently amended, the "2010 Healthcare Reform Laws"). At this time, it is unclear what, if any, of the Medicare-related changes may ultimately be enacted and signed into law by the President, but it is possible that any reductions in Medicare spending will have a material impact on reimbursements for healthcare providers generally and post-acute providers specifically. We cannot predict what, if any, changes in Medicare spending or modifications to the 2010 Healthcare Reform Laws will result from future budget and other legislative initiatives.

  On April 16, 2015, the President signed into law the Medicare Access and CHIP (Children's Health Insurance Program) Reauthorization Act, which repealed the statutory mechanism providing for annual automatic adjustments to the Medicare physician fee schedule using a sustainable growth rate formula that has historically resulted in annual deep cuts to physician reimbursement rates, a consequence of which has been the so-called "doc fixes" passed by Congress annually since 2002 to override those automatic adjustments. The primary impact of this act on post-acute care providers is a mandated market basket update of +1.0% in 2018 for rehabilitation hospitals as well as home health and hospice agencies.

  Another challenge relates to reduced Medicare reimbursement, which is also discussed in Item 1A, *Risk Factors* . Unless the United States Congress acts to change or eliminate it, sequestration, which began affecting payments received after April 1, 2013, will continue to result in a 2% decrease to reimbursements otherwise due from Medicare, after taking into consideration other changes to reimbursement rates such as market basket updates.

  Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, and/or further reductions to provider payments. Likewise, issues related to the federal budget or the unwillingness to raise the statutory cap on the federal government's ability to issue debt, also referred to as the "debt ceiling," may have a significant impact on the economy and indirectly on our results of operations and financial position. We cannot predict what alternative or additional deficit reduction initiatives, Medicare payment reductions, or post-acute care reforms, if any, will ultimately be enacted into law, or the timing or effect any such

initiatives or reductions will have on us. If enacted, such initiatives or reductions would likely be challenging for all providers, would likely have the effect of limiting Medicare beneficiaries' access to healthcare services, and could have an adverse impact on our financial position, results of operations, and cash flows. However, we believe our efficient cost structure should allow us to absorb, adjust to, or mitigate any potential initiative or reimbursement reductions more easily than most other post-acute providers.

On July 31, 2015, CMS released its notice of final rulemaking for fiscal year 2016 (the "2016 Rule") for inpatient rehabilitation facilities ("IRFs") under the prospective payment system ("IRF-PPS"). The final rule will implement a net 1.7% market basket increase effective for discharges between October 1, 2015 and September 30, 2016, calculated as follows:

| | |
|---|---|
| Market basket update | 2.4% |
| Healthcare reform reduction | 20 basis points |
| Productivity adjustment | 50 basis points |

The final rule also includes other changes that impact our hospital-by-hospital base rate for Medicare reimbursement. Such changes include, but are not limited to, revisions to the wage index values, changes to designations between rural and urban facilities, and updates to the outlier fixed-loss threshold. The final rule also continues the freeze of the update to the IRF-PPS facility-level rural adjustment factor, low-income patient factor, and teaching status adjustment factors. Based on our analysis which utilizes, among other things, the acuity of our patients over the 12-month period prior to the final rule's release and incorporates other adjustments included in the final rule, we believe the 2016 Rule will result in a net increase to our Medicare payment rates of approximately 1.6% effective October 1, 2015, prior to the impact of sequestration.

Additionally, the final rule contains changes that could affect us in future years. For example, pursuant to the Improving Medicare Post-Acute Care Transformation Act of 2014 (the "IMPACT Act"), CMS adopted six additional quality reporting measures, the reporting of which beginning on October 1, 2016 will require additional time and expense and could affect reimbursement beginning October 1, 2017. CMS also adopted an IRF-specific market basket that could, in a given year, result in a higher or lower pricing update than the current market basket methodologies.

Reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals as well as home health and hospice agencies, are subject to audit from time to time by governmental payors and their agents, such as the Medicare Administrative Contractors ("MACs"), fiscal intermediaries and carriers, as well as the OIG, CMS, and state Medicaid programs. Under programs designated as "widespread probes," certain of our MACs have conducted pre-payment claim reviews of our billings and denied payment for certain diagnosis codes. A substantial majority of the denials we have encountered in these probes derive from one MAC. In connection with recent probes, this MAC has made determinations regarding medical necessity which represent its uniquely restrictive interpretations of the CMS coverage rules. We have discussed our objections to those interpretations with both the MAC and CMS. We cannot predict what, if any, changes will result from those discussions. If the MAC continues to deny a significant number of claims for certain diagnosis codes, we may experience increases in the *Provision for doubtful accounts* , decreases in cash flow as a result of increasing accounts receivable, and/or a shift in the patients and conditions we treat, any of which could have an adverse effect on our financial position, results of operations, and liquidity.

On November 16, 2015, CMS issued its final rule establishing the Comprehensive Care for Joint Replacement ("CJR") payment model. This mandatory model holds acute care hospitals accountable for the quality of care they deliver to Medicare fee-for-service beneficiaries for lower extremity joint replacements (i.e., knees and hips) from surgery through recovery. Through the five-year payment model, healthcare providers in 67 geographic areas would continue to be paid under existing Medicare payment systems. However, the hospital where the joint replacement takes place would be held accountable for the quality and costs of care for the entire episode of care — from the time of the surgery through 90 days after discharge. Depending on the quality and cost performance during the entire episode, the hospital may receive an additional payment or be required to repay Medicare for a portion of the episode costs. As a result, the acute care hospitals would be incented to work with physicians and post-acute care providers to ensure beneficiaries receive the coordinated care they need in an efficient manner. We believe its impact would be positive for HealthSouth as it should favor high-quality, low-cost providers like us who have made significant commitments to information systems that enable and enhance connectivity. We also believe the rule further validates our movement into home health via the acquisition of Encompass. Currently,

lower extremity joint replacement patients represent less than 8% of our total annual discharges due to our required compliance with the 60% rule. Given the 67 geographic areas included in the CJR proposal, our patients potentially subject to this model represent less than 2% of our annual Medicare discharges. The lower extremity joint replacement patients we do treat are generally higher acuity and bilateral or possess significant comorbidities. In these cases and in any risk-bearing bundling initiative, quality of outcomes is critical to achieving targeted financial results.

On October 29, 2015, CMS released its notice of final rulemaking for calendar year 2016 for home health agencies under the prospective payment system ("HH-PPS"). Specifically, while the final rule provides for a market basket update of 2.3%, that update is offset by a 2.4% rebasing adjustment reduction (the third year of a four-year phase-in), a productivity adjustment reduction of 40 basis points, and a case-mix coding intensity reduction of 90 basis points. We believe the final rule will result in a net decrease to Encompass' Medicare payment rates of approximately 1.7% effective for episodes ending in calendar year 2016, before sequestration.

Additionally, the HH-PPS provides that quality reporting requirements must be satisfied in order for agencies to avoid a 2% reduction in their annual HH-PPS payment update percentage. All home health agencies must submit both admission and discharge outcome and assessment information sets, or "OASIS assessments," for a minimum of 70% of all patients with episodes of care occurring during the reporting period starting July 1, 2015. In the 2016 final rule, CMS increased the minimum reporting threshold to 80% for episodes occurring between July 1, 2016 and June 30, 2017, and to 90% for episodes occurring from July 1, 2017 and thereafter. We do not expect, based on our agencies' current OASIS submission rates, to experience a material impact.

In addition, the final home health rule establishes a Home Health Value-Based Purchasing model in nine states that will include five performance years beginning January 1, 2016 and test whether incentives for better care can improve outcomes in the delivery of home health services. The model would apply a reduction or increase to current Medicare-certified home health agency payments, depending on quality performance, made to agencies in those nine states. Payment adjustments would be applied on an annual basis, beginning at 3% and increasing to 8% in later years of the initiative.

See also Item 1, *Business* , "Sources of Revenues" and "Regulation," and Item 1A, *Risk Factors* , to this report and Note 17, *Contingencies and Other Commitments* , "Governmental Inquiries and Investigations," to the accompanying consolidated financial statements.

- Changes to Our Operating Environment Resulting from Healthcare Reform . Our challenges related to healthcare reform are discussed in Item 1, *Business* , "Sources of Revenues," and Item 1A, *Risk Factors* . Many provisions within the 2010 Healthcare Reform Laws have impacted, or could in the future impact, our business. Most notably for us are the reductions to our hospitals' annual market basket updates, including productivity adjustments, mandated reductions to home health and hospice Medicare reimbursements, and future payment reforms such as ACOs and bundled payments.

  The healthcare industry in general is facing uncertainty associated with the efforts, primarily arising from initiatives included in the 2010 Healthcare Reform Laws, to identify and implement workable coordinated care delivery models. In a coordinated care delivery model, hospitals, physicians, and other care providers work together to provide coordinated healthcare on a more efficient, patient-centered basis. These providers are then paid based on the overall value of the services they provide to a patient rather than the number of services they provide. While this is consistent with our goal and proven track record of being a high-quality, cost-effective provider, broad-based implementation of a new delivery model would represent a significant transformation for the healthcare industry. As the industry and its regulators explore this transformation, we are positioning the Company in preparation for whatever changes are ultimately made to the delivery system:

  - We have a track record of successful partnerships with acute care providers. Thirty-three of our hospitals already operate as joint ventures with acute care hospitals, and we continue to pursue joint ventures as one of our growth initiatives. These joint ventures create an immediate link to an acute care system and position us to quickly and efficiently integrate our services in a coordinated care model.

  - Our commitment to coordinated care is demonstrated and enhanced by the utilization of technology. Our hospital electronic clinical information system is capable of interfaces with all major acute care electronic medical record systems and health information exchanges making communication easier across the continuum of healthcare providers. Our home health and hospice clinical information system utilizes a

leading home care technology that manages the entire patient work flow. Importantly, we have the ability to use data from both systems to develop clinical protocol best practices.

- Our balance sheet is strong, and we have consistently strong free cash flows. We have no significant debt maturities prior to 2020, and we have significant liquidity under our revolving credit facility. In addition, we own the real estate associated with approximately 68% of our hospitals.

- We have a proven track record of being a high-quality, cost-effective provider. The FIM ® Gains (a tool based on an 18-point assessment used to measure functional independence from admission to discharge) at our inpatient rehabilitation hospitals consistently exceed industry results, and the 30-day readmission rates at our home health agencies are lower than the national average. In addition, we have the scale and operating leverage to generate a low cost per discharge/visit.

- We are currently participating in several coordinated care delivery model initiatives and are exploring ACO participation in several others. Eight of our IRFs began participating in Phase 2, the “at-risk” phase, of Model 3 of CMS’ Bundled Payments for Care Improvement (“BPCI”) initiative in 2015. We also have several IRFs that have signed participation agreements with acute care providers participating in Model 2 of the BPCI initiative. Ten of our home health agencies began participating in Phase 2 of Model 3 of the BPCI initiative in April 2014. In July 2015, 42 additional home health agencies began participating in Phase 2 of Model 3 of this initiative. In addition, we have partnered as the home health provider with Premier PHC™, an ACO serving approximately 20,000 Medicare patients.

Given the complexity and the number of changes in the 2010 Healthcare Reform Laws, we cannot predict their ultimate impact. In addition, the ultimate nature and timing of the transformation of the healthcare delivery system is uncertain, and will likely remain so for some time. We will continue to evaluate these laws and position the Company for this industry shift. Based on our track record, we believe we can adapt to these regulatory and industry changes. Further, we have engaged, and will continue to engage, actively in discussions with key legislators and regulators to attempt to ensure any healthcare laws or regulations adopted or amended promote our goal of high-quality, cost-effective care.

Additionally, in October 2014, the President signed into law the IMPACT Act. The IMPACT Act was developed on a bi-partisan basis by the House Ways and Means and Senate Finance Committees and incorporated feedback from healthcare providers and provider organizations that responded to the Committees’ solicitation of post-acute payment reform ideas and proposals. It directs the United States Department of Health and Human Services (“HHS”), in consultation with healthcare stakeholders, to implement standardized data collection processes for post-acute quality and outcome measures. Although the IMPACT Act does not specifically call for the development of a new post-acute payment system, we believe this act will lay the foundation for possible future post-acute payment policies that would be based on patients’ medical conditions and other clinical factors rather than the setting where the care is provided. It will create additional data reporting requirements for our hospitals and home health agencies, and we expect to fully comply with these requirements. The precise details of these new reporting requirements, including timing and content, will be developed and implemented by CMS through the regulatory process that we expect will take place over the next several years. While we cannot quantify the potential financial effects of the IMPACT Act on HealthSouth, we believe any post-acute payment system that is data-driven and focuses on the needs and underlying medical conditions of post-acute patients ultimately will be a net positive for providers who offer high-quality, cost-effective care. However, it will likely take years for the related quality measures to be established, quality data to be gathered, standardized patient assessment data to be assembled and disseminated, and potential payment policies to be developed, tested, and promulgated. As the nation’s largest owner and operator of inpatient rehabilitation hospitals and fourth largest provider of Medicare-certified skilled home health services, we will work with HHS, the Medicare Payment Advisory Commission, and other healthcare stakeholders on these initiatives.

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

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

- Recruiting and Retaining High-Quality Personnel . See Item 1A, *Risk Factors* , for a discussion of competition for staffing, shortages of qualified personnel, and other factors that may increase our labor costs. Recruiting and retaining qualified personnel for our inpatient hospitals and home health and hospice agencies remain a high priority for us. We attempt to maintain a comprehensive compensation and benefits package that allows us to remain competitive in this challenging staffing environment while remaining consistent with our goal of being a high-quality, cost-effective provider of inpatient rehabilitative services.

See also Item 1, *Business* , and Item 1A, *Risk Factors* .

These key challenges notwithstanding, we have a strong business model, a strong balance sheet, and a proven track record of achieving strong financial and operational results. We are attempting to position the Company to respond to changes in the healthcare delivery system and believe we will be in a position to take advantage of any opportunities that arise as the industry moves to this new stage. We believe we are positioned to continue to grow, adapt to external events, and create value for our shareholders in 2016 and beyond.

**Results of Operations**

*Payor Mix*

During 2015 , 2014 , and 2013 , we derived consolidated *Net operating revenues* from the following payor sources:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Medicare | 74.9% | 74.1% | 74.5% |
| Managed care and other discount plans, including Medicare Advantage | 17.7% | 18.6% | 18.5% |
| Medicaid | 3.0% | 1.8% | 1.2% |
| Other third-party payors | 1.7% | 1.8% | 1.8% |
| Workers' compensation | 0.9% | 1.2% | 1.2% |
| Patients | 0.6% | 1.0% | 1.1% |
| Other income | 1.2% | 1.5% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% |

Our payor mix is weighted heavily towards Medicare. We receive Medicare reimbursements under the inpatient rehabilitation facility prospective payment system (the “IRF-PPS”), the home health prospective payment system (“HH-PPS”) and the hospice prospective payment system (the “Hospice-PPS”). For additional information regarding Medicare reimbursement, see the “Sources of Revenues” section of Item 1, *Business* .

As part of the Balanced Budget Act of 1997, Congress created a program of private, managed healthcare coverage for Medicare beneficiaries. This program has been referred to as Medicare Part C, or “Medicare Advantage.” The program offers beneficiaries a range of Medicare coverage options by providing a choice between the traditional fee-for-service program (under Medicare Parts A and B) or enrollment in a health maintenance organization, preferred provider organization, point-of-service plan, provider sponsor organization, or an insurance plan operated in conjunction with a medical savings account. Medicare Advantage revenues, included in the “managed care and other discount plans” category in the above table, represented approximately 8% of our total patient revenues during the years ended December 31, 2015, 2014, and 2013.

Our consolidated *Net operating revenues* consist primarily of revenues derived from patient care services and home health and hospice services. *Net operating revenues* also include other revenues generated from management and administrative fees and other nonpatient care services. These other revenues are included in “other income” in the above table.

*Our Results*

From 2013 through 2015 , our consolidated results of operations were as follows:

| | For the Year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 v. 2014 | 2014 v. 2013 |
| | | (In Millions) | | | |
| Net operating revenues | $ 3,162.9 | $ 2,405.9 | $ 2,273.2 | 31.5 % | 5.8 % |
| Less: Provision for doubtful accounts | (47.2) | (31.6) | (26.0) | 49.4 % | 21.5 % |
| Net operating revenues less provision for doubtful accounts | 3,115.7 | 2,374.3 | 2,247.2 | 31.2 % | 5.7 % |
| Operating expenses: | | | | | |
| Salaries and benefits | 1,670.8 | 1,161.7 | 1,089.7 | 43.8 % | 6.6 % |
| Other operating expenses | 432.1 | 351.6 | 323.0 | 22.9 % | 8.9 % |
| Occupancy costs | 53.9 | 41.6 | 47.0 | 29.6 % | (11.5)% |
| Supplies | 128.7 | 111.9 | 105.4 | 15.0 % | 6.2 % |
| General and administrative expenses | 133.3 | 124.8 | 119.1 | 6.8 % | 4.8 % |
| Depreciation and amortization | 139.7 | 107.7 | 94.7 | 29.7 % | 13.7 % |
| Government, class action, and related settlements | 7.5 | (1.7) | (23.5) | (541.2)% | (92.8)% |
| Professional fees—accounting, tax, and legal | 3.0 | 9.3 | 9.5 | (67.7)% | (2.1)% |
| Total operating expenses | 2,569.0 | 1,906.9 | 1,764.9 | 34.7 % | 8.0 % |
| Loss on early extinguishment of debt | 22.4 | 13.2 | 2.4 | 69.7 % | 450.0 % |
| Interest expense and amortization of debt discounts and fees | 142.9 | 109.2 | 100.4 | 30.9 % | 8.8 % |
| Other income | (5.5) | (31.2) | (4.5) | (82.4)% | 593.3 % |
| Equity in net income of nonconsolidated affiliates | (8.7) | (10.7) | (11.2) | (18.7)% | (4.5)% |
| Income from continuing operations before income tax expense | 395.6 | 386.9 | 395.2 | 2.2 % | (2.1)% |
| Provision for income tax expense | 141.9 | 110.7 | 12.7 | 28.2 % | 771.7 % |
| Income from continuing operations | 253.7 | 276.2 | 382.5 | (8.1)% | (27.8)% |
| (Loss) income from discontinued operations, net of tax | (0.9) | 5.5 | (1.1) | (116.4)% | (600.0)% |
| **Net income** | 252.8 | 281.7 | 381.4 | (10.3)% | (26.1)% |
| Less: Net income attributable to noncontrolling interests | (69.7) | (59.7) | (57.8) | 16.8 % | 3.3 % |
| **Net income attributable to HealthSouth** | $ 183.1 | $ 222.0 | $ 323.6 | (17.5)% | (31.4)% |

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Provision for doubtful accounts | 1.5% | 1.3 % | 1.1 % |
| Operating expenses: | | | |
| Salaries and benefits | 52.8% | 48.3 % | 47.9 % |
| Other operating expenses | 13.7% | 14.6 % | 14.2 % |
| Occupancy costs | 1.7% | 1.7 % | 2.1 % |
| Supplies | 4.1% | 4.7 % | 4.6 % |
| General and administrative expenses | 4.2% | 5.2 % | 5.2 % |
| Depreciation and amortization | 4.4% | 4.5 % | 4.2 % |
| Government, class action, and related settlements | 0.2% | (0.1)% | (1.0)% |
| Professional fees—accounting, tax, and legal | 0.1% | 0.4 % | 0.4 % |
| Total operating expenses | 81.2% | 79.3 % | 77.6 % |

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

*2015 Compared to 2014*

Net Operating Revenues

Our consolidated *Net operating revenues* increased by $ 757.0 million , or 31.5% , in 2015 compared to 2014. This increase primarily resulted from strong volume growth in both of our operating segments and included the effect of our acquisitions of Encompass, Reliant, and CareSouth. See additional discussion in the "Segment Results of Operations" section of this Item.

Provision for Doubtful Accounts

For several years, under programs designated as "widespread probes," certain of our MACs have conducted pre-payment claim reviews of our billings and denied payment for certain diagnosis codes based on medical necessity. We dispute, or "appeal," most of these denials, but the resolution of these disputes can take in excess of three years, and we cannot provide assurance as to our ongoing and future success of these disputes. As such, we make provisions against these receivables in accordance with our accounting policy that necessarily considers historical collection trends of the receivables in this review process as part of our *Provision for doubtful accounts* . Therefore, as we experience increases or decreases in these denials, or if our actual collections of these denials differ from our estimated collections, we may experience volatility in our *Provision for doubtful accounts* . See also Item 1, *Business* , "Sources of Revenues—Medicare Reimbursement," to this report.

The change in our *Provision for doubtful accounts* as a percent of *Net operating revenues* in 2015 compared to 2014 primarily resulted from an increase in pre-payment claims denials by MACs, and continued substantial delays (exceeding three years) in the adjudication process at the administrative law judge hearing level. As these denials slowly work their way through the appeal process, we examine our success rate and adjust our historical collection percentage to estimate our *Provision for doubtful accounts* . In 2015, we revised our recovery estimates on pending MAC pre-payment claims from 63% to 71% using our historical collection percentage for all amounts denied. For claims we choose to take through all levels of appeal, up to and including administrative law judge hearings, we have historically experienced an approximate 70% success rate.

Salaries and Benefits

*Salaries and benefits* are the most significant cost to us and represent an investment in our most important asset: our employees. *Salaries and benefits* include all amounts paid to full- and part-time employees who directly participate in or support the operations of our hospitals, including all related costs of benefits provided to employees. It also includes amounts paid for contract labor.

*Salaries and benefits* increased in 2015 compared to 2014 primarily due to increased patient volumes, a 2.25% merit increase given to all eligible nonmanagement hospital employees effective October 1, 2014, and an increase in group medical costs in our inpatient rehabilitation segment. Increased patient volumes included an increase in the number of full-time equivalents as a result of our hospital development activities and the acquisitions of Encompass, Reliant, and CareSouth. Full-time equivalents also increased due to hospital staffing additions to ensure compliance with new Medicare quality reporting requirements and the creation of a new medical services department.

*Salaries and benefits* as a percent of *Net operating revenues* increased by 450 basis points during 2015 compared to 2014 primarily as a result of the acquisition of Encompass, the pricing impact of proportionally higher discharge growth from payors where our reimbursement is lower (as discussed in this Item, "Segment Results of Operations—Inpatient Rehabilitation—Net Operating Revenues"), an increase in group medical costs in our inpatient rehabilitation segment, start-up costs associated with our de novo hospitals that opened in the fourth quarter of 2014, and the additional staff associated with Medicare quality reporting and the medical services department. In addition, 2015 also included the pricing impact of updated Supplemental Security Income ("SSI") ratios (as discussed in this Item, "Segment Results of Operations—Inpatient Rehabilitation—Net Operating Revenues").

We provided a 2.5% merit increase to our nonmanagement hospital employees effective October 1, 2015.

Other Operating Expenses

*Other operating expenses* include costs associated with managing and maintaining our hospitals. These expenses include such items as contract services, utilities, non-income related taxes, insurance, professional fees, and repairs and maintenance.

*Other operating expenses* increased during 2015 compared to 2014 primarily due to the acquisition of Encompass, increased patient volumes at our hospitals, and the ongoing implementation of our clinical information system. As a percent of *Net operating revenues* , *Other operating expenses* decreased during 2015 compared to 2014 due to increased revenues, primarily as a result of the acquisition of Encompass.

Occupancy costs

*Occupancy costs* include amounts paid for rent associated with leased hospitals, outpatient rehabilitation satellite clinics, and home health and hospice agencies, including common area maintenance and similar charges. *Occupancy costs* remained flat as a percent of *Net operating revenues* in 2015 compared to 2014 due to our increasing revenue, primarily as a result of the acquisition of Encompass. We expect *Occupancy costs* to increase going forward as a result of our acquisition of Reliant.

Supplies

*Supplies* expense includes all costs associated with supplies used while providing patient care. Specifically, these costs include pharmaceuticals, food, needles, bandages, and other similar items. *Supplies* expense decreased as a percent of *Net operating revenues* in 2015 compared to 2014 primarily due to our increasing revenue, primarily as a result of the acquisition of Encompass.

General and Administrative Expenses

*General and administrative expenses* primarily include administrative expenses such as information technology services, human resources, corporate accounting, legal services, and internal audit and controls that are managed from our corporate headquarters in Birmingham, Alabama. These expenses also include stock-based compensation expenses and transaction costs associated with our acquisitions of Reliant and CareSouth in 2015 and Encompass in 2014.

*General and administrative expenses* increased in 2015 compared to 2014 due primarily to increased expenses associated with stock-based compensation, discussed in Note 14 , *Employee Benefit Plans* , to the accompanying consolidated financial statements, and higher transaction costs. *General and administrative expenses* decreased as a percent of *Net operating revenues* in 2015 compared to 2014 primarily due to our increasing revenue, primarily as a result of the acquisition of Encompass.

Depreciation and Amortization

*Depreciation and amortization* increased during 2015 compared to 2014 due to our acquisitions and capital expenditures throughout 2014 and 2015. We expect *Depreciation and amortization* to increase going forward as a result of our recent and ongoing capital investments.

Government, Class Action, and Related Settlements

The loss included in *Government, Class Action, and Related Settlements* in 2015 resulted from a settlement discussed in Note 17 , *Contingencies and Other Commitments* , to the accompanying consolidated financial statements.

Professional Fees — Accounting, Tax, and Legal

*Professional fees—accounting, tax, and legal* for 2015 and 2014 related primarily to legal and consulting fees for continued litigation and support matters.

Loss on Early Extinguishment of Debt

In January 2015, we issued an additional $400 million of our 5.75% Senior Notes due 2024 at a price of 102% of the principal amount and used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility. As a result of the term loan prepayment, we recorded a $1.2 million *Loss on early extinguishment of debt* in the first quarter of 2015. In April 2015, we used the net proceeds from the offering of 5.125% Senior Notes due 2023 along with cash on hand to execute the redemption of our 8.125% Senior Notes due 2020. As a result of this redemption, we recorded an $18.8 million *Loss on early extinguishment of debt* in the second quarter of 2015. I n November 2015, we used borrowings under our senior secured credit facility to execute the redemption of $50 million of the outstanding principal amount of our existing 7.75% Senior Notes due 2022. As a result of this redemption, we recorded an $2.4 million *Loss on early extinguishment of debt* in the fourth quarter of 2015.

The *Loss on early extinguishment of debt* in 2014 resulted from the redemption of our 7.25% Senior Notes due 2018 and the redemption of 10% of the outstanding principal amount of our 7.75% Senior Notes due 2022 in the fourth quarter of 2014.

See Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements.

Interest Expense and Amortization of Debt Discounts and Fees

The increase in *Interest expense and amortization of debt discounts and fees* in 2015 compared to 2014 resulted from an increase in average borrowings offset by a lower average cash interest rate. Average borrowings increased due to our use of debt to fund the acquisitions of Encompass, Reliant, and CareSouth. Our average cash interest rate decreased from 6.3% in 2014 to 5.3% in 2015 due to the redemption of our 7.25% Senior Notes due 2018 in October 2014, the redemption of approximately $25 million of our 7.75% Senior Notes due 2022 in December 2014, and the redemption of our 8.125% Senior Notes due 2020 in April 2015. Cash paid for interest approximated $121 million and $101 million in 2015 and 2014, respectively.

Average borrowings outstanding increased in 2015 primarily as a result of the acquisitions of Encompass, Reliant, and CareSouth. In turn, interest expense is expected to increase in 2016. See Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements.

See Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements.

Other Income

*Other income* for 2015 included a $1.2 million realized gain from the sale of all the common stock of Surgical Care Affiliates (“SCA”), our former surgery centers division and a $2.0 million gain related to the increase in fair value of our option to purchase up to a 5% equity interest in SCA from April 1, 2015 (the date it became exercisable) to April 13, 2015 (the date we exercised the option). See Note 12 , *Fair Value Measurements* , to the accompanying consolidated financial statements.

*Other income* for 2014 included a $27.2 million gain related to the acquisition of an additional 30% equity interest in Fairlawn. See Note 2 , *Business Combinations* , to the accompanying consolidated financial statements.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations in 2015 increased compared to 2014 due to increased *Net operating revenues* primarily as a result of the acquisitions of Encompass, Reliant, and CareSouth. Our pre-tax income from continuing operations for 2014 included the $27.2 million gain on the consolidation of Fairlawn.

Provision for Income Tax Expense

Due to our federal and state net operating losses ("NOLs"), our cash income taxes approximated $9.4 million, net of refunds, in 2015. These payments resulted primarily from state income tax expense of subsidiaries which have separate state filing requirements, alternative minimum taxes, and federal income taxes for subsidiaries not included in our federal consolidated income tax return. In 2016, we estimate we will pay approximately $20 million to $40 million of cash income taxes, net of refunds. In 2015 and 2014, current income tax expense was $14.8 million and $13.3 million , respectively.

Our effective income tax rate for 2015 was 35.9% . Our *Provision for income tax expense* in 2015 was greater than the federal statutory rate of 35% primarily due to: (1) state and other income tax expense and (2) an increase in our valuation allowance offset by (3) the impact of noncontrolling interests. See Note 1, *Summary of Significant Accounting Policies* , "Income Taxes," for a discussion of the allocation of income or loss related to pass-through entities, which is referred to as the impact of noncontrolling interests in this discussion. The increase in our valuation allowance in 2015 related primarily to changes to our state apportionment percentages resulting from the acquisitions of Encompass, Reliant, and CareSouth and changes to our current forecast of earnings in each jurisdiction.

Our effective income tax rate for 2014 was 28.6% . Our *Provision for income tax expense* in 2014 was less than the federal statutory rate of 35% primarily due to: (1) the impact of noncontrolling interests, (2) the nontaxable gain discussed in Note 2, *Business Combinations* , related to our acquisition of an additional 30% equity interest in Fairlawn, and (3) a decrease in our valuation allowance offset by (4) state and other income tax expense. As a result of the Fairlawn transaction, we released the deferred tax liability associated with the outside tax basis of our investment in Fairlawn because we now possess sufficient ownership to allow for the historical outside tax basis difference to be resolved through a tax-free transaction in the future. The decrease in our valuation allowance in 2014 related primarily to the expiration of state NOLs in certain jurisdictions, our current forecast of future earnings in each jurisdiction, and changes in certain state tax laws.

In certain state jurisdictions, we do not expect to generate sufficient income to use all of the available NOLs prior to their expiration. This determination is based on our evaluation of all available evidence in these jurisdictions including results of operations during the preceding three years, our forecast of future earnings, and prudent tax planning strategies. It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdiction, or if the timing of future tax deductions differs from our expectations.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits, a position will be sustained upon examination by and resolution with the taxing authorities. Total remaining gross unrecognized tax benefits were $2.9 million and $0.9 million as of December 31, 2015 and 2014, respectively.

See Note 15 , *Income Taxes* , to the accompanying consolidated financial statements and the "Critical Accounting Estimates" section of this Item.

Net Income Attributable to Noncontrolling Interests

*Net income attributable to noncontrolling interests* represents the share of net income or loss allocated to members or partners in our consolidated affiliates. The increase in *Net Income Attributable to Noncontrolling Interests* in 2015 compared to 2014 primarily resulted from our acquisition of Encompass on December 31, 2014.

*2014 Compared to 2013*

Net Operating Revenues

Net patient revenue from our hospitals was 6.7% higher in 2014 than in 2013. This increase was attributable to a 3.5% increase in patient discharges and a 3.1% increase in net patient revenue per discharge. Discharge growth included a 1.3% increase in same-store discharges. Same-store discharges were negatively impacted by winter storms in the first quarter of 2014 (40 basis points) and the closure of 40 skilled nursing facility beds in June 2014 (20 basis points). Discharge growth from new stores primarily resulted from the consolidation of Fairlawn effective June 1, 2014, as discussed in Note 2 , *Business Combinations* , to the accompanying consolidated financial statements. Net patient revenue per discharge in 2014 benefited

from Medicare and managed care price adjustments and higher average acuity for the patients served. Net patient revenue per discharge was negatively impacted in the first quarter of 2014 by approximately $9 million for sequestration, which anniversaried on April 1, 2014. Net patient revenue per discharge in 2013 was negatively impacted by contractual allowances established in the fourth quarter of 2013 related to RAC audits.

Decreased outpatient volumes in 2014 compared to 2013 resulted from the closure of outpatient clinics and continued competition from physicians offering physical therapy services within their own offices.

Provision for Doubtful Accounts

The change in our *Provision for doubtful accounts* as a percent of *Net operating revenues* in 2014 compared to 2013 was primarily the result of continued pre-payment reviews by MACs and substantial delays in the adjudication process at the administrative law judge hearing level.

Salaries and Benefits

*Salaries and benefits* increased in 2014 compared to 2013 primarily due to increased patient volumes, including an increase in the number of full-time equivalents as a result of our 2013 and 2014 development activities, and a 2.2% merit increase given to all eligible nonmanagement employees effective October 1, 2013.

The net impact of reductions in self-insurance reserves, the negative impact of sequestration, and start-up costs associated with our de novo hospitals that opened in the fourth quarter of 2014 increased *Salaries and benefits* as a percent of *Net operating revenues* in 2014 compared to 2013. Excluding the impact of these three items, *Salaries and benefits* as a percent of *Net operating revenues* would have been approximately 40 basis points lower in 2014 than in 2013. Group medical and workers' compensation reserves were reduced by approximately $8 million in 2014 as compared to approximately $15 million in 2013.

We provided a 2.25% merit increase to our nonmanagement employees effective October 1, 2014.

Other Operating Expenses

*Other operating expenses* increased during 2014 compared to 2013 primarily as a result of increased patient volumes and approximately $7 million of lower reductions to self-insurance reserves for general and professional liability in 2014 than in 2013. As a percent of *Net operating revenues* , *Other operating expenses* for 2014 increased when compared to 2013 due primarily to these same lower reductions to self-insurance reserves. The increase in *Other operating expenses* as a percent of *Net operating revenues* for 2014 compared to 2013 also included the effects of sequestration experienced in the first quarter of 2014.

Occupancy costs

*Occupancy costs* decreased in total and as a percent of *Net operating revenues* in 2014 compared to 2013 due to our purchases of the real estate previously subject to operating leases at certain of our hospitals in the latter half of 2013 and first quarter of 2014.

Supplies

*Supplies* expense as a percent of *Net operating revenues* increased by 10 basis points during the 2014 compared to 2013 due primarily to the impact of sequestration on our *Net operating revenues* in the first quarter of 2014.

General and Administrative Expenses

In March 2008, we sold our corporate campus to Daniel Corporation ("Daniel"), a Birmingham, Alabama-based real estate company. The sale included a deferred purchase price component related to an incomplete 13-story building located on the property, often referred to as the Digital Hospital. Under the agreement, Daniel was obligated upon sale of its interest in the building to pay to us 40% of the net profit realized from the sale. In June 2013, Daniel sold the building to Trinity Medical Center. In the third quarter of 2013, we received $10.8 million in cash from Daniel in connection with the sale of the building. The gain associated with this transaction is being deferred and amortized over five years, which was the remaining life of our lease agreement with Daniel for the portion of the property we continue to occupy with our corporate office at the time of the transaction, as a component of *General and administrative expenses* . Approximately $2 million and $1 million of this gain was included in *General and administrative expenses* in 2014 and 2013, respectively.

*General and administrative expenses* in 2014 included $9.3 million of transaction expenses related to our acquisition of Encompass. These one-time expenses were offset by decreased expenses associated with stock-based compensation and our Senior Management Bonus Program discussed in Note 14 , *Employee Benefit Plans* , to the accompanying consolidated financial statements, as well as the amortization of the deferred gain on the Digital Hospital discussed above. *General and administrative expenses* were flat as a percent of *Net operating revenues* in 2014 compared to 2013 due primarily to our increasing revenue.

Depreciation and Amortization

*Depreciation and amortization* increased during 2014 compared to 2013 due to our increased capital expenditures and development activities throughout 2013 and 2014.

Government, Class Action, and Related Settlements

The gain included in *Government, class action, and related settlements* in 2013 resulted from a noncash reduction in the estimated liability associated with the apportionment obligation to the plaintiffs in the January 2007 comprehensive settlement of the consolidated securities action, the collection of final judgments against former officers, and the recovery of assets from former officers. See Note 18, *Contingencies and Other Commitments* , to the consolidated financial statements accompanying the 2014 Form 10-K.

Professional Fees — Accounting, Tax, and Legal

*Professional fees—accounting, tax, and legal* for 2014 and 2013 related primarily to legal and consulting fees for continued litigation and support matters discussed in Note 17 , *Contingencies and Other Commitments* , to the accompanying consolidated financial statements.

Loss on Early Extinguishment of Debt

The *Loss on early extinguishment of debt* in 2014 resulted from the redemption of our 7.25% Senior Notes due 2018 and the redemption of 10% of the outstanding principal amount of our 7.75% Senior Notes due 2022 in the fourth quarter of 2014. The *Loss on early extinguishment of debt* in 2013 resulted from the redemption of 10% of the outstanding principal amount of our 7.25% Senior Notes due 2018 and our 7.75% Senior Notes due 2022 in November 2013.

See Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements.

Interest Expense and Amortization of Debt Discounts and Fees

The increase in *Interest expense and amortization of debt discounts and fees* during 2014 compared to 2013 primarily resulted from the noncash amortization of debt discounts and financing costs associated with the issuance of our 2.00% Convertible Senior Subordinated Notes due 2043 in November 2013. While our average borrowings increased in 2014 primarily as a result of issuing the convertible notes, our average cash interest rate decreased from 7.1% in 2013 to 6.2% in 2014. Cash paid for interest approximated $101 million and $99 million in 2014 and 2013, respectively.

Other Income

*Other income* for 2014 included a $27.2 million gain related to the acquisition of an additional 30% equity interest in Fairlawn. See Note 2 , *Business Combinations* , to the accompanying consolidated financial statements.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations for 2014 reflected continued revenue growth and increases in interest expense and depreciation and amortization. Pre-tax income was also impacted by three items having a net, favorable impact of $4.7 million. These items included the $27.2 million gain on the consolidation of Fairlawn offset by the $13.2 million *Loss on early extinguishment of debt* and $9.3 million of Encompass transaction expenses. Pre-tax income from continuing operations for 2013 included $23.5 million of gains related to *Government, class action, and related settlements* .

Provision for Income Tax Expense

As discussed above, our effective income tax rate for 2014 was 28.6%, which was less than the federal statutory rate of 35.0% primarily due to: (1) the impact of noncontrolling interests, (2) the nontaxable gain discussed in Note 2, *Business Combinations* , related to our acquisition of an additional 30% equity interest in Fairlawn, and (3) a decrease in our valuation allowance offset by (4) state and other income tax expense.

Our effective income tax rate for 2013 was 3.2%, which was less than the federal statutory rate of 35.0% primarily due to: (1) the IRS settlement discussed in Note 15, *Income Taxes* , to the accompanying consolidated financial statements, (2) the impact of noncontrolling interests, and (3) a decrease in our valuation allowance offset by (4) state and other income tax expense.

Total remaining gross unrecognized tax benefits were $0.9 million and $1.1 million as of December 31, 2014 and 2013, respectively.

See Note 15, *Income Taxes* , to the accompanying consolidated financial statements and the “Critical Accounting Estimates” section of this Item.

*Impact of Inflation*

The impact of inflation on the Company will be primarily in the area of labor costs. The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. There can be no guarantee we will not experience increases in the cost of labor, as the need for clinical healthcare professionals is expected to grow. In addition, increases in healthcare costs are typically higher than inflation and impact our costs under our employee benefit plans. Managing these costs remains a significant challenge and priority for us.

Suppliers pass along rising costs to us in the form of higher prices. Our supply chain efforts and our continual focus on monitoring and actively managing pharmaceutical costs has enabled us to accommodate increased pricing related to supplies and other operating expenses over the past few years. However, we cannot predict our ability to cover future cost increases.

It should be noted that we have little or no ability to pass on these increased costs associated with providing services to Medicare and Medicaid patients due to federal and state laws that establish fixed reimbursement rates.

*Relationships and Transactions with Related Parties*

Related party transactions were not material to our operations in 2015, 2014, or 2013, and therefore, are not presented as a separate discussion within this Item.

**Segment Results of Operations**

Our internal financial reporting and management structure is focused on the major types of services provided by HealthSouth. Beginning in the first quarter of 2015, we manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. Prior period information has been adjusted to conform to the current period presentation. Specifically, HealthSouth’s legacy 25 hospital-based home health agencies have been reclassified from our inpatient rehabilitation segment to our home health and hospice segment for all periods presented. For additional information regarding our business segments, including a detailed description of the services we provide, financial data for each segment, and a reconciliation of total segment Adjusted EBITDA to income from continuing operations before income tax expense, see Note 18, *Segment Reporting* , to the accompanying consolidated financial statements.

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*Inpatient Rehabilitation*

During the years ended December 31, 2015 , 2014 and 2013 , our inpatient rehabilitation segment derived its *Net operating revenues* from the following payor sources:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Medicare | 73.2% | 73.9% | 74.2% |
| Managed care and other discount plans, including Medicare Advantage | 19.0% | 18.8% | 18.7% |
| Medicaid | 2.5% | 1.8% | 1.2% |
| Other third-party payors | 2.0% | 1.8% | 1.8% |
| Workers’ compensation | 1.1% | 1.2% | 1.3% |
| Patients | 0.7% | 1.0% | 1.1% |
| Other income | 1.5% | 1.5% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% |

Additional information regarding our inpatient rehabilitation segment's operating results for the years ended December 31, 2015 , 2014 and 2013 , is as follows:

| | For the Year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| | (In Millions, Except Percentage Change) | | | | |
| **Net operating revenues:** | | | | | |
| Inpatient | $ 2,547.2 | $ 2,272.5 | $ 2,130.8 | 12.1 % | 6.7 % |
| Outpatient and other | 105.9 | 104.8 | 113.6 | 1.0 % | (7.7)% |
| **Inpatient rehabilitation segment revenues** | 2,653.1 | 2,377.3 | 2,244.4 | 11.6 % | 5.9 % |
| Less: Provision for doubtful accounts | (44.7) | (31.2) | (25.6) | 43.3 % | 21.9 % |
| Net operating revenues less provision for doubtful accounts | 2,608.4 | 2,346.1 | 2,218.8 | 11.2 % | 5.7 % |
| Operating expenses: | | | | | |
| Salaries and benefits | 1,310.6 | 1,141.0 | 1,069.7 | 14.9 % | 6.7 % |
| Other operating expenses | 387.7 | 342.5 | 314.7 | 13.2 % | 8.8 % |
| Supplies | 120.9 | 111.5 | 105.2 | 8.4 % | 6.0 % |
| Occupancy costs | 46.2 | 41.2 | 46.5 | 12.1 % | (11.4)% |
| Other income | (2.3) | (4.0) | (4.5) | (42.5)% | (11.1)% |
| Equity in net income of nonconsolidated affiliates | (8.6) | (10.7) | (11.2) | (19.6)% | (4.5)% |
| Noncontrolling interests | 62.9 | 59.3 | 57.2 | 6.1 % | 3.7 % |
| **Segment Adjusted EBITDA** | $ 691.0 | $ 665.3 | $ 641.2 | 3.9 % | 3.8 % |
| | (Actual Amounts) | | | | |
| Discharges | 149,161 | 134,515 | 129,988 | 10.9 % | 3.5 % |
| Net patient revenue per discharge | $ 17,077 | $ 16,894 | $ 16,392 | 1.1 % | 3.1 % |
| Outpatient visits | 577,507 | 579,555 | 652,266 | (0.4)% | (11.1)% |
| Average length of stay (days) | 12.9 | 13.2 | 13.3 | (2.3)% | (0.8)% |
| Occupancy % | 62.8% | 68.4% | 69.3% | (8.2)% | (1.3)% |
| # of licensed beds | 8,404 | 7,095 | 6,825 | 18.4 % | 4.0 % |
| Full-time equivalents* | 17,880 | 16,405 | 15,956 | 9.0 % | 2.8 % |
| Employees per occupied bed | 3.41 | 3.40 | 3.39 | 0.3 % | 0.3 % |

* Excludes approximately 400 full-time equivalents in each period who are considered part of corporate overhead with their salaries and benefits included in *General and administrative expenses* in our consolidated statements of operations. Full-time equivalents included in the above table represent HealthSouth employees who participate in or support the operations of our hospitals and exclude an estimate of full-time equivalents related to contract labor.

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

Net Operating Revenues

Net patient revenue from our hospitals was 12.1% higher for 2015 compared to 2014. This increase included a 10.9% increase in patient discharges and a 1.1% increase in net patient revenue per discharge. Discharge growth included a 3.2% increase in same-store discharges. Discharge growth from new stores resulted from three de novo hospitals that opened in the

fourth quarter of 2014 (Altamonte Springs, Florida; Newnan, Georgia; and Middletown, Delaware) and one de novo hospital that opened in December 2015 (Franklin, Tennessee), our acquisitions of Reliant (October 2015), Quillen Rehabilitation Hospital ("Quillen") in Johnson City, Tennessee (November 2014) and Cardinal Hill in Lexington, Kentucky (May 2015), and our joint venture with Memorial Health in Savannah, Georgia (April 2015). While we experienced pricing growth from Medicare and managed care payors, the pricing adjustments were negatively impacted by proportionally higher discharge growth in Medicaid and managed care payors where our reimbursement is lower. In addition, our net patient revenue per discharge was negatively impacted in 2015 by approximately $5 million for updated SSI ratios published by CMS for fiscal year 2013.

See Note 2, *Business Combinations* , to the accompanying consolidated financial statements of this report for information regarding Reliant, Cardinal Hill, Quillen, Fairlawn, and our joint venture with Memorial Health.

Adjusted EBITDA

The increase in Adjusted EBITDA in 2015 compared to 2014 primarily resulted from revenue growth from both same stores and new stores, as discussed above. Adjusted EBITDA in 2015 was also impacted by (1) an increase in salaries and benefits as a percent of revenue due to increases in group medical costs, an increase in our licensed skills mix, and an increase in volume-related "premium" pay, (2) increased bad debt expense from continued pre-payment claims denials predominately by one of our MACs, (3) SSI ratio adjustments, as discussed above (4) a settlement of an employee sexual harassment matter that was not covered by insurance, and (5) incremental investments in our operating platform, including a contractual increase in costs associated with the ongoing implementation of our electronic clinical information system, the addition of staff at our hospitals to ensure compliance with new CMS quality reporting requirements, the creation of a new medical services department, and costs associated with our participation in CMS' Model 3 bundling pilot initiative. Increases in group medical costs resulted from an increase in the number and size of large claims (claims greater than $100,000) and an increase in the cost and use of specialty pharmaceuticals.

*Home Health and Hospice*

During the years ended December 31, 2015 , 2014 and 2013 , our home health and hospice segment derived its *Net operating revenues* from the following payor sources:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Medicare | 83.7% | 96.9% | 95.8% |
| Managed care and other discount plans, including Medicare Advantage | 10.7% | 1.8% | 2.5% |
| Medicaid | 5.5% | —% | —% |
| Other third-party payors | —% | 1.0% | 1.4% |
| Workers' compensation | —% | 0.3% | 0.3% |
| Patients | 0.1% | —% | —% |
| Total | 100.0% | 100.0% | 100.0% |

Additional information regarding our home health and hospice segment's operating results for the years ended December 31, 2015 , 2014 and 2013 , is as follows:

| | For the Year Ended December 31, | | | Percentage Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 vs. 2014 | 2014 vs. 2013 |
| | (In Millions, Except Percentage Change) | | | | |
| **Net operating revenues:** | | | | | |
| Home health | $ 478.1 | $ 28.6 | $ 28.8 | NMF | NMF |
| Hospice | 31.7 | — | — | N/A | N/A |
| **Home health and hospice segment revenues** | 509.8 | 28.6 | 28.8 | NMF | NMF |
| Less: Provision for doubtful accounts | (2.5) | (0.4) | (0.4) | NMF | NMF |
| Net operating revenues less provision for doubtful accounts | 507.3 | 28.2 | 28.4 | NMF | NMF |
| Operating expenses: | | | | | |
| Cost of services sold (excluding depreciation and amortization) | 244.8 | 17.0 | 16.7 | NMF | NMF |
| Support and overhead costs | 172.7 | 6.9 | 6.6 | NMF | NMF |
| Equity in net income of nonconsolidated affiliates | (0.1) | — | — | NMF | NMF |
| Noncontrolling interests | 6.8 | 0.4 | 0.6 | NMF | NMF |
| **Segment Adjusted EBITDA** | $ 83.1 | $ 3.9 | $ 4.5 | NMF | NMF |
| | (Actual Amounts) | | | | |
| **Home health:** | | | | | |
| Admissions | 74,329 | 7,545 | 7,403 | NMF | NMF |
| Recertifications | 65,039 | 1,030 | 914 | NMF | NMF |
| Episodes | 137,568 | 8,236 | 7,969 | NMF | NMF |
| Average revenue per episode | $ 3,072 | $ 3,364 | $ 3,462 | (8.7)% | (2.8)% |
| Episodic visits per episode | 19.1 | 18.8 | 18.6 | 1.6 % | 1.1 % |
| Total visits | 2,889,373 | 159,672 | 154,365 | NMF | NMF |
| Cost per visit | $ 72.0 | $ 108.0 | $ 107.9 | (33.3)% | 0.1 % |
| **Hospice:** | | | | | |
| Admissions | 2,452 | — | — | N/A | N/A |
| Patient days | 204,898 | — | — | N/A | N/A |
| Revenue per day | $ 155 | $ — | $ — | N/A | N/A |

The increase in *Net operating revenues* and Adjusted EBITDA during 2015 compared to 2014 was due to our acquisition of Encompass on December 31, 2014 (see Note 2, *Business Combinations* , to the accompanying consolidated financial statements). Because of this acquisition, certain variances in the above table are considered to be not meaningful figures and are labeled as "NMF."

**Results of Discontinued Operations**

For information regarding discontinued operations, see Note 12 , *Fair Value Measurements* , to the accompanying consolidated financial statements.

**Liquidity and Capital Resources**

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

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

Consistent with these objectives, in December 2014, we drew $375 million under our expanded term loan facilities and $325 million under our revolving credit facility to fund the acquisition of Encompass. In January 2015, we issued an additional $400 million of our 5.75% Senior Notes due 2024 (the "2024 Notes") at a price of 102% of the principal amount and used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility. As a result of this transaction, we recorded a $1.2 million *Loss on early extinguishment of debt* in the first quarter of 2015.

In March 2015, we issued $300 million of 5.125% Senior Notes due 2023 (the "2023 Notes") at a price of 100.0% of the principal amount, which resulted in approximately $295 million in net proceeds from the public offering. On April 10, 2015, we used the net proceeds from the 2023 Notes offering along with cash on hand to redeem all of our 8.125% Senior Notes due 2020 (the "2020 Notes"). Pursuant to the terms of the 2020 Notes, this redemption was made at a price of 104.063%, which resulted in a total cash outlay of approximately $302 million to retire the $290 million in principal. As a result of this redemption, we recorded an $18.8 million *Loss on early extinguishment of debt* in the second quarter of 2015.

In order to facilitate the funding of our development pipeline, including the acquisition of Reliant, in June 2015, we amended our existing credit agreement to (1) provide that the leverage ratio financial covenant be calculated on a pro forma basis to include the effects of investments, acquisitions, mergers, and other operational changes and (2) increase the amount of specifically permitted capital lease obligations from $200 million to $350 million. In July 2015, we further amended our credit agreement to (1) add $500 million of new term loan facilities to our existing $600 million revolving credit facility and $195 million of outstanding term loans, (2) change the maximum leverage ratio in the financial covenants applicable for the period July 2015 through June 2017 from 4.25x to 4.50x and to 4.25x from then until maturity, and (3) extend the maturity date for all borrowings to July 2020. Under the terms of the amendment, the amount available to us under the new term loan facilities would be reduced in the event we incurred additional capital markets indebtedness. Based on our issuance of additional senior notes in August 2015 and September 2015, as discussed below , our availability under the new term loan facilities was reduced to $250 million. In September, we borrowed $125 million of the new term loan facilities, the proceeds of which were used to fund a portion of the Reliant acquisition. We utilized the remaining $125 million of term loan facility capacity, as well as cash on hand, to finance the CareSouth acquisition. See Note 2, *Business Combinations* , to the accompanying consolidated financial statements and the "Executive Overview—2015 Overview" section of this Item.

In August 2015, we issued an additional $350 million of our 2024 Notes at a price of 100.5% of the principal amount, which resulted in approximately $351 million in net proceeds from the private offering. We used the net proceeds to reduce borrowings under our revolving credit facility and fund a portion of the Reliant acquisition. In September 2015, we issued $350 million of 5.75% Senior Notes due 2025 (the "2025 Notes") at a price of 100.0% of the principal amount, which resulted in approximately $344 million in net proceeds from the private offering. We used the net proceeds from this borrowing to fund a portion of the Reliant acquisition. See Note 2, *Business Combinations* , to the accompanying consolidated financial statements and the "Executive Overview—2015 Overview" section of this Item.

In November 2015, we used cash on hand and borrowings under our senior secured credit facility to redeem $50 million of the outstanding principal amount of our existing 7.75% Senior Notes due 2022 (the "2022 Notes"). Pursuant to the terms of the 2022 Notes, this optional redemption was made at a price of 103.875%, which resulted in a total cash outlay of approximately $52 million. As a result of this redemption, we recorded a $2.4 million *Loss on early extinguishment of debt* in the fourth quarter of 2015. See Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

On February 23, 2016, we gave notice of, and made an irrevocable commitment for, the redemption of $50 million of the outstanding principal amount of our existing 2022 Notes. Pursuant to the terms of the 2022 Notes, this optional redemption will be at a price of 103.875%, which will result in a total cash outlay of approximately $52 million when the transaction closes, which is expected to be on March 24, 2016. We plan to use cash on hand and capacity under our revolving credit facility to fund the redemption. As a result of this redemption, we expect to record an approximate $2 million loss on early extinguishment of debt in the first quarter of 2016. See Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

On April 22, 2015, we delivered notice of the exercise of our rights to force conversion of all outstanding shares of our *Convertible perpetual preferred stock* (par value of $0.10 per share and liquidation preference of $1,000 per share) pursuant to

the underlying certificate of designations. The effective date of the conversion was April 23, 2015. On that date, each share of preferred stock automatically converted into 33.9905 shares of our common stock (par value of $0.01 per share). We completed the forced conversion by issuing and delivering in the aggregate 3,271,415 shares of our common stock to the registered holders of the 96,245 shares of the preferred stock outstanding and paying cash in lieu of fractional shares due to those holders. The conversion increased the number of basic shares outstanding by 3,271,415 and did not change the diluted share count. On an annual basis, the conversion of the preferred stock to common stock is expected to result in a net positive cash impact of $3.2 million for the difference between preferred dividends and common dividends on these shares, based on the current common dividend level of $0.23 per share.

We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2020. Our balance sheet remains strong, and we have significant availability under our credit agreement. We continue to generate strong cash flows from operations, and we have significant flexibility with how we choose to invest our cash and return capital to shareholders. While our financial leverage increased as a result of the Encompass, Reliant and CareSouth transactions, we anticipate in the longer term reducing our financial leverage based on growth of Adjusted EBITDA and an allocation of a portion of our free cash flow to debt reduction.

See Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements.

*Current Liquidity*

As of December 31, 2015 , we had $61.6 million in *Cash and cash equivalents* . This amount excludes $ 45.9 million in *Restricted cash* and $56.2 million of restricted marketable securities ( $40.1 million of restricted marketable securities are included in *Other long-term assets* in our consolidated balance sheet). Our restricted assets pertain primarily to obligations associated with our captive insurance company, as well as obligations we have under agreements with joint venture partners. See Note 3, *Cash and Marketable Securities* , to the accompanying consolidated financial statements.

In addition to *Cash and cash equivalents* , as of December 31, 2015 , we had approximately $436 million available to us under our revolving credit facility. Our credit agreement governs the substantial majority of our senior secured borrowing capacity and contains a leverage ratio and an interest coverage ratio as financial covenants. Our leverage ratio is defined in our credit agreement as the ratio of consolidated total debt (less up to $75 million of cash on hand) to Adjusted EBITDA for the trailing four quarters. In calculating the leverage ratio under our credit agreement, we are permitted to use pro forma Adjusted EBITDA, the calculation of which includes historical income statement items and pro forma adjustments resulting from (1) the dispositions and repayments or incurrence of debt and (2) the investments, acquisitions, mergers, amalgamations, consolidations and operational changes from acquisitions to the extent such items or effects are not yet reflected in our trailing four-quarter financial statements. Our interest coverage ratio is defined in our credit agreement as the ratio of Adjusted EBITDA to consolidated interest expense, excluding the amortization of financing fees, for the trailing four quarters. As of December 31, 2015 , the maximum leverage ratio requirement per our credit agreement was 4.50x and the minimum interest coverage ratio requirement was 3.0x, and we were in compliance with these covenants. Based on Adjusted EBITDA for 2015 and the interest rate in effect under our credit agreement during the three-month period ended December 31, 2015 , if we had drawn on the first day and maintained the maximum amount of outstanding draws under our revolving credit facility for the entire year, we would still be in compliance with the maximum leverage ratio and minimum interest coverage ratio requirements.

We do not face near-term refinancing risk, as the amounts outstanding under our credit agreement do not mature until 2020, and our bonds all mature in 2022 and beyond. See the “Contractual Obligations” section below for information related to our contractual obligations as of December 31, 2015 .

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

See Item 1A, *Risk Factors* , for a discussion of risks and uncertainties facing us.

*Sources and Uses of Cash*

The following table shows the cash flows provided by or used in operating, investing, and financing activities for the years ended December 31, 2015 , 2014 , and 2013 (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Net cash provided by operating activities | $ 484.8 | $ 444.9 | $ 470.3 |
| Net cash used in investing activities | (1,129.8) | (876.9) | (226.2) |
| Net cash provided by (used in) financing activities | 639.9 | 434.2 | (312.4) |
| (Decrease) increase in cash and cash equivalents | $ (5.1) | $ 2.2 | $ (68.3) |

2015 Compared to 2014

*Operating activities.* The increase in *Net cash provided by operating activities* during 2015 compared to 2014 primarily resulted from revenue growth. Cash flows provided by operating activities in 2015 were also impacted by increased cash interest expense and higher working capital. Higher working capital resulted from growth in accounts receivable due to additional claims denials and continued delays at the administrative law judge hearing level.

*Investing activities* . The increase in *Net cash used in investing activities* during 2015 compared to 2014 resulted primarily from the acquisitions of Reliant and CareSouth described in Note 2, *Business Combinations* , to the accompanying consolidated financial statements.

*Financing activities* . The increase in *Net cash provided by financing activities* during 2015 compared to 2014 primarily resulted from the public offering of the 2023 Notes, the additional offering of the 2024 Notes, and the private offering of the 2025 Notes to fund the acquisitions of Reliant and CareSouth as discussed above and in Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

2014 Compared to 2013

*Operating activities.* The decrease in *Net cash provided by operating activities* from 2013 to 2014 primarily resulted from growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level. See Item 1, *Business* , “Sources of Revenues—Medicare Reimbursement—Inpatient Rehabilitation.”

*Investing activities* . The increase in *Net cash used in investing activities* during 2014 compared to 2013 primarily resulted from the acquisition of Encompass. The total cash consideration delivered at closing was $695.5 million.

*Financing activities* . *Net cash provided by financing activities* in 2014 primarily resulted from draws under the revolving and expanded term loan facilities of our credit agreement to fund the acquisition of Encompass. Excluding the Encompass-related borrowings, *Net cash used in financing activities* would have decreased in 2014 primarily due to repurchases of our common stock as part of a tender offer in the first quarter of 2013 offset by an increase in common stock cash dividends in 2014.

See Note 2, *Business Combinations* , Note 8, *Long-term Debt* , and Note 16, *Earnings per Common Share* , to the accompanying consolidated financial statements.

*Contractual Obligations*

Our consolidated contractual obligations as of December 31, 2015 are as follows (in millions):

| | Total | 2016 | 2017-2018 | 2019-2020 | 2021 and thereafter |
|---|---|---|---|---|---|
| Long-term debt obligations: | | | | | |
| Long-term debt, excluding revolving credit facility and capital lease obligations [a] | $ 2,753.3 | $ 24.9 | $ 46.9 | $ 648.5 | $ 2,033.0 |
| Revolving credit facility | 130.0 | — | — | 130.0 | — |
| Interest on long-term debt [b] | 1,264.6 | 140.8 | 279.6 | 272.7 | 571.5 |
| Capital lease obligations [c] | 543.1 | 32.8 | 67.5 | 58.1 | 384.7 |
| Operating lease obligations [d][e] | 387.6 | 59.2 | 98.1 | 74.1 | 156.2 |
| Purchase obligations [e][f] | 114.2 | 33.3 | 49.3 | 24.4 | 7.2 |
| Other long-term liabilities [g][h] | 3.7 | 0.3 | 0.4 | 0.4 | 2.6 |
| Total | $ 5,196.5 | $ 291.3 | $ 541.8 | $ 1,208.2 | $ 3,155.2 |

[a] Included in long-term debt are amounts owed on our bonds payable and other notes payable. These borrowings are further explained in Note 8, *Long-term Debt ,* to the accompanying consolidated financial statements.

[b] Interest on our fixed rate debt is presented using the stated interest rate. Interest expense on our variable rate debt is estimated using the rate in effect as of December 31, 2015 . Interest related to capital lease obligations is excluded from this line. Future minimum payments, which are accounted for as interest, related to sale/leaseback transactions involving real estate accounted for as financings are included in this line (see Note 5, *Property and Equipment* , and Note 8, *Long-term Debt* , to the accompanying consolidated financial statements). Amounts exclude amortization of debt discounts, amortization of loan fees, or fees for lines of credit that would be included in interest expense in our consolidated statements of operations.

[c] Amounts include interest portion of future minimum capital lease payments.

[d] Our inpatient rehabilitation segment leases approximately 32% of its hospitals as well as other property and equipment under operating leases in the normal course of business. Our home health and hospice segment leases relatively small office spaces in the localities it serves, space for its corporate office, and other equipment under operating leases in the normal course of business. Some of our hospital leases contain escalation clauses based on changes in the Consumer Price Index while others have fixed escalation terms. The minimum lease payments do not include contingent rental expense. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease agreements. For more information, see Note 5, *Property and Equipment ,* to the accompanying consolidated financial statements.

[e] Future operating lease obligations and purchase obligations are not recognized in our consolidated balance sheet.

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

[g] Because their future cash outflows are uncertain, the following noncurrent liabilities are excluded from the table above: general liability, professional liability, and workers' compensation risks, noncurrent amounts related to third-party billing audits, and deferred income taxes. Also, as of December 31, 2015 , we had $2.9 million of total gross unrecognized tax benefits. For more information, see Note 9, *Self-Insured Risks ,* Note 15, *Income Taxes ,* and Note 17, *Contingencies and Other Commitments ,* to the accompanying consolidated financial statements.

[h] The table above does not include *Redeemable noncontrolling interests* of $121.1 million because of the uncertainty surrounding the timing and amounts of any related cash outflows. See Note 11, *Redeemable Noncontrolling Interests* , to the accompanying consolidated financial statements.

Our capital expenditures include costs associated with our hospital refresh program, de novo projects, capacity expansions, technology initiatives, and building and equipment upgrades and purchases. During the year ended December 31, 2015 , we made capital expenditures of approximately $157 million for property and equipment and capitalized software. These expenditures in 2015 are exclusive of approximately $985 million in net cash related to our acquisition activity. During 2016 , we expect to spend approximately $185 million to $230 million for capital expenditures. Approximately $95 million to $110 million of this budgeted amount is considered nondiscretionary expenditures, which we may refer to in other filings as "maintenance" expenditures. Actual amounts spent will be dependent upon the timing of construction projects and acquisition opportunities for our home health and hospice business.

*Authorizations for Returning Capital to Stakeholders*

In October 2014, February 2015, and May 2015, our board of directors declared a cash dividend of $0.21 per share that was paid in January 2015, April 2015, and July 2015, respectively. On July 16, 2015, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.23 per share, payable on October 15, 2015 to stockholders of record on October 1, 2015. On October 23, 2015, our board of directors declared a cash dividend of $0.23 per share, payable on January 15, 2016 to stockholders of record on January 2, 2016. We expect quarterly dividends to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board of directors after consideration of various factors, including our capital position and alternative uses of funds. Cash dividends are expected to be funded using cash flows from operations, cash on hand, and availability under our credit agreement.

The payment of cash dividends on our common stock triggers antidilution adjustments, except in instances when such adjustments are deemed *de minimis,* under our convertible notes and our previous convertible perpetual preferred stock. See Note 8 , *Long-term Debt* , Note 10 , *Convertible Perpetual Preferred Stock* , and Note 16 , *Earnings per Common Share* , to the accompanying consolidated financial statements.

On February 14, 2014, our board of directors approved an increase in our existing common stock repurchase authorization from $200 million to $250 million. As of December 31, 2015, approximately $160 million remained under this authorization. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During 2015, we repurchased 1.3 million shares of our common stock in the open market for $45.3 million under this repurchase authorization using cash on hand. Future repurchases under this authorization generally are expected to be funded using a combination of cash on hand and availability under our $600 million revolving credit facility.

*Adjusted EBITDA*

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

We use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated basis is important in analyzing our liquidity because it is the key component of certain material covenants contained within our credit agreement, which is discussed in more detail in Note 8 , *Long-term Debt* , to the accompanying consolidated financial statements. These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under our credit agreement — our interest coverage ratio and our leverage ratio — could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, which would have some cost to us, and such relief might be on terms less favorable to us than those in our existing credit agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under our credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying common stock dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to our assessment of our liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, therein referred to as "Adjusted Consolidated EBITDA," allows us to add back to consolidated *Net income* interest expense, income taxes, and depreciation and amortization and then add back to consolidated *Net income* (1) all unusual or nonrecurring items reducing consolidated *Net income* (of which only up to $10 million in a year may be cash expenditures), (2) any losses from discontinued operations and closed locations, (3) costs and expenses, including legal fees and expert witness fees, incurred with respect to litigation

associated with stockholder derivative litigation, and (4) share-based compensation expense. We also subtract from consolidated *Net income* all unusual or nonrecurring items to the extent increasing consolidated *Net income* .

Under the credit agreement, the Adjusted EBITDA calculation does not include net income attributable to noncontrolling interests and includes (1) gain or loss on disposal of assets, (2) professional fees unrelated to the stockholder derivative litigation, (3) unusual or nonrecurring cash expenditures in excess of $10 million, and (4) pro forma adjustments resulting from debt transactions and development activities. These items may not be indicative of our ongoing performance, so the Adjusted EBITDA calculation presented here includes adjustments for them.

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

Our Adjusted EBITDA for the years ended December 31, 2015 , 2014 , and 2013 was as follows (in millions):

**Reconciliation of Net Income to Adjusted EBITDA**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| **Net income** | $ 252.8 | $ 281.7 | $ 381.4 |
| Loss (income) from discontinued operations, net of tax, attributable to HealthSouth | 0.9 | (5.5) | 1.1 |
| Provision for income tax expense | 141.9 | 110.7 | 12.7 |
| Interest expense and amortization of debt discounts and fees | 142.9 | 109.2 | 100.4 |
| Loss on early extinguishment of debt | 22.4 | 13.2 | 2.4 |
| Professional fees—accounting, tax, and legal | 3.0 | 9.3 | 9.5 |
| Government, class action, and related settlements | 7.5 | (1.7) | (23.5) |
| Net noncash loss on disposal or impairment of assets | 2.6 | 6.7 | 5.9 |
| Depreciation and amortization | 139.7 | 107.7 | 94.7 |
| Stock-based compensation expense | 26.2 | 23.9 | 24.8 |
| Net income attributable to noncontrolling interests | (69.7) | (59.7) | (57.8) |
| Gain on consolidation of former equity method hospital | — | (27.2) | — |
| Transaction costs | 12.3 | 9.3 | — |
| **Adjusted EBITDA** | $ 682.5 | $ 577.6 | $ 551.6 |

**Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Net cash provided by operating activities** | $ 484.8 | $ 444.9 | $ 470.3 |
| Provision for doubtful accounts | (47.2) | (31.6) | (26.0) |
| Professional fees—accounting, tax, and legal | 3.0 | 9.3 | 9.5 |
| Interest expense and amortization of debt discounts and fees | 142.9 | 109.2 | 100.4 |
| Equity in net income of nonconsolidated affiliates | 8.7 | 10.7 | 11.2 |
| Net income attributable to noncontrolling interests in continuing operations | (69.7) | (59.7) | (57.8) |
| Amortization of debt-related items | (14.3) | (12.7) | (5.0) |
| Distributions from nonconsolidated affiliates | (7.7) | (12.6) | (11.4) |
| Current portion of income tax expense | 14.8 | 13.3 | 6.3 |
| Change in assets and liabilities | 147.1 | 90.1 | 48.9 |
| Net premium paid on bond transactions | 3.9 | 4.3 | 1.7 |
| Operating cash used in discontinued operations | 0.7 | 1.2 | 1.9 |
| Transaction costs | 12.3 | 9.3 | — |
| Other | 3.2 | 1.9 | 1.6 |
| **Adjusted EBITDA** | $ 682.5 | $ 577.6 | $ 551.6 |

Growth in Adjusted EBITDA from 2015 to 2014 resulted primarily from the acquisition of Encompass on December 31, 2014. As discussed above in the "Segment Results of Operations" section of this Item, increased *Net operating revenues* in our inpatient rehabilitation segment were impacted by (1) an increase in salaries and benefits as a percent of revenue due to increases in group medical costs, an increase in our licensed skills mix, and an increase in volume-related "premium" pay, (2) increased bad debt expense from continued pre-payment claims denials predominately by one of our MACs, (3) SSI ratio adjustments, and (4) incremental investments in our operating platform.

Growth in Adjusted EBITDA from 2013 to 2014 was due primarily to continued revenue growth, as well as an approximate $6 million contribution to Adjusted EBITDA from the increase in ownership and consolidation of Fairlawn. The comparison to last year was negatively impacted by approximately $14 million attributable to lower reductions in our self-insurance reserves in 2014 than in 2013, as discussed in the "Results of Operations" section of this Item. Adjusted EBITDA in 2014 also included approximately $8 million for the negative impact of sequestration in the first quarter of 2014 and approximately $4 million in higher net start-up costs, year over year, for new hospitals.

**Off-Balance Sheet Arrangements**

In accordance with the definition under SEC rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantees or contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity, or market risk support to that entity for such assets;
- any obligation under certain derivative instruments; and
- any obligation under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the registrant, or engages in leasing, hedging, or research and development services with the registrant.

As of December 31, 2015 , we do not have any material off-balance sheet arrangements.

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPEs"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 31, 2015 , we are not involved in any unconsolidated SPE transactions.

**Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. We base our assumptions, estimates, and judgments on historical experience, current trends, and other factors we believe to be relevant at the time we prepared our consolidated financial statements. On a regular basis, we review the accounting policies, assumptions, estimates, and judgments to ensure our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 1, *Summary of Significant Accounting Policies* , to the accompanying consolidated financial statements. We believe the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, as they require our most difficult, subjective, or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the audit committee of our board of directors.

See also Note 2, *Business Combinations* , to the accompanying consolidated financial statements.

*Revenue Recognition*

We recognize net patient service revenue in the reporting period in which we perform the service based on our current billing rates (i.e., gross charges) less actual adjustments and estimated discounts for contractual allowances (principally for patients covered by Medicare, Medicaid, and managed care and other health plans). See Note 1, *Summary of Significant Accounting Policies* , "Net Operating Revenues," to the accompanying consolidated financial statements for a complete discussion of our revenue recognition policies.

Our accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Other factors that are considered and could further influence the level of our reserves include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes, and additional reserves are provided to account for these factors.

Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. In addition, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

In addition, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. In connection with CMS approved and announced RAC audits related to IRFs, we received requests in 2013 and 2014 to review certain patient files for discharges occurring from 2010 to 2014. To date, the Medicare payments that are subject to these audit requests represent less than 1% of our Medicare patient discharges during those years, and not all of these patient file requests have resulted in payment denial determinations by the RACs. While we make provisions for these claims based on our historical experience and success rates in the claims adjudication process, which is the same process we follow for appealing denials of certain diagnosis codes by MACs, we cannot provide assurance as to our future success in the resolution of these and future disputes, nor can we predict or estimate the scope or number of denials that ultimately may be received. During 2015 and 2014, we adjusted our *Net operating revenues* by approximately ($0.6) million and $0.4 million, respectively, for post-payment claims that are part of this review process.

Due to complexities involved in determining amounts ultimately due under reimbursement arrangements with third-party payors, which are often subject to interpretation and review, we may receive reimbursement for healthcare services authorized and provided that is different from our estimates, and such differences could be material. However, we continually review the amounts actually collected in subsequent periods in order to determine the amounts by which our estimates differed. Historically, such differences have not been material from either a quantitative or qualitative perspective.

*Allowance for Doubtful Accounts*

The collection of outstanding receivables from third-party payors and patients is our primary source of cash and is critical to our operating performance. We provide for accounts receivable that could become uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. See Note 1, *Summary of Significant Accounting Policies* , “Accounts Receivable and the Allowance for Doubtful Accounts,” and Note 4, *Accounts Receivable* , to the accompanying consolidated financial statements for a complete discussion of our policies related to the allowance for doubtful accounts.

We estimate our allowance for doubtful accounts based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors so that the remaining receivables, net of allowances, are reflected at their estimated net realizable values. Changes in general economic conditions (such as increased unemployment rates or periods of recession), business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable. Our collection risks include patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and co-payments) remain outstanding. In addition, reimbursement claims made by health care providers are subject to audit from time to time by governmental payors and their agents.

For several years, under programs designated as “widespread probes,” certain of our MACs have conducted pre-payment claim reviews of our billing and denied payment for certain diagnosis codes based on medical necessity. We dispute, or “appeal,” most of these denials, and we collect approximately 71% of all amounts denied. For claims we choose to take through all levels of appeal, up to and including administrative law judge hearings, we have historically experienced an approximate 70% success rate. Because we do not write off receivables until all collection efforts have been exhausted, we do not write-off receivables related to denied claims while they are in this review process. The resolution of these disputes can take in excess of three years.

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. As of December 31, 2015 and 2014 , $126.1 million and $62.2 million , or 22.1% and 15.4% , respectively, of our patient accounts receivable represented denials by MACs that were in the pre-payment medical necessity review process. During the years ended December 31, 2015 , 2014 , and 2013 , we wrote off $2.6 million , $1.4 million , and $2.2 million , respectively, of previously denied claims while we collected $7.4 million , $7.1 million , and $1.7 million , respectively, of previously denied claims.

The table below shows a summary of our net accounts receivable balances as of December 31, 2015 and 2014 . Information on the concentration of total patient accounts receivable by payor class can be found in Note 1, *Summary of Significant Accounting Policies* , “Accounts Receivable and the Allowance for Doubtful Accounts,” to the accompanying consolidated financial statements.

| | As of December 31, | |
|---|---|---|
| | **2015** | **2014*** |
| | **(In Millions)** | |
| 0 - 30 Days | $ 300.3 | $ 230.4 |
| 31 - 60 Days | 39.0 | 30.1 |
| 61 - 90 Days | 24.5 | 12.3 |
| 91 - 120 Days | 9.9 | 5.2 |
| 120 + Days | 29.6 | 31.3 |
| Current patients accounts receivable, net | 403.3 | 309.3 |
| Noncurrent patient accounts receivable, net | 96.6 | 51.4 |
| Other accounts receivable | 7.2 | 13.9 |
| **Accounts receivable, net** | **$ 507.1** | **$ 374.6** |

*Due to a methodology change, we have adjusted the 2014 amounts, which only impacts the aging categories and not total *Accounts receivable, net* .

*Self-Insured Risks*

We are self-insured for certain losses related to professional liability, general liability, and workers' compensation risks. Although we obtain third-party insurance coverage to limit our exposure to these claims, a substantial portion of our professional liability, general liability, and workers' compensation risks are insured through a wholly owned insurance subsidiary. See Note 9, *Self-Insured Risks* , to the accompanying consolidated financial statements for a more complete discussion of our self-insured risks.

Our self-insured liabilities contain uncertainties because management must make assumptions and apply judgment to estimate the ultimate cost of reported claims and claims incurred but not reported as of the balance sheet date. Our reserves and provisions for professional liability, general liability, and workers' compensation risks are based largely upon semi-annual actuarial calculations prepared by third-party actuaries.

Periodically, we review our assumptions and the valuations provided by third-party actuaries to determine the adequacy of our self-insurance reserves. The following are the key assumptions and other factors that significantly influence our estimate of self-insurance reserves:

- historical claims experience;
- trending of loss development factors;
- trends in the frequency and severity of claims;
- coverage limits of third-party insurance;
- demographic information;
- statistical confidence levels;
- medical cost inflation;
- payroll dollars; and
- hospital patient census.

The time period to resolve claims can vary depending upon the jurisdiction, the nature, and the form of resolution of the claims. The estimation of the timing of payments beyond a year can vary significantly. In addition, if current and future claims differ from historical trends, our estimated reserves for self-insured claims may be significantly affected. Our self-insurance reserves are not discounted.

Given the number of factors used to establish our self-insurance reserves, we believe there is limited benefit to isolating any individual assumption or parameter from the detailed computational process and calculating the impact of changing that single item. Instead, we believe the sensitivity in our reserve estimates is best illustrated by changes in the statistical confidence level used in the computations. Using a higher statistical confidence level increases the estimated self-insurance reserves. The following table shows the sensitivity of our recorded self-insurance reserves to the statistical confidence level (in millions):

| Net self-insurance reserves as of December 31, 2015: | |
|---|---|
| As reported, with 50% statistical confidence level | 115.5 |
| With 70% statistical confidence level | 123.4 |

In the years leading up to 2013, we experienced volatility in our estimates of prior year claim reserves due primarily to favorable trends in claims and industry-wide loss development trends. We believe our efforts to improve patient safety and overall quality of care, as well as our efforts to reduce workplace injuries, have helped contain our ultimate claim costs. See Note 9, *Self-Insured Risks* , to the accompanying consolidated financial statements for additional information.

We believe our self-insurance reserves are adequate to cover projected costs. Due to the considerable variability that is inherent in such estimates, there can be no assurance the ultimate liability will not exceed management's estimates. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

*Goodwill*

Absent any impairment indicators, we evaluate goodwill for impairment as of October 1 st of each year. We test goodwill for impairment at the reporting unit level and are required to make certain subjective and complex judgments on a number of matters, including assumptions and estimates used to determine the fair value of our inpatient rehabilitation and home health and hospice reporting units. We assess qualitative factors in each reporting unit to determine whether it is necessary to perform the first step of the two-step quantitative goodwill impairment test. The quantitative impairment test is required only if we conclude it is more likely than not a reporting unit's fair value is less than its carrying amount.

If, based on our qualitative assessment, we were to believe we must proceed to Step 1, we would determine the fair value of the applicable reporting unit using generally accepted valuation techniques including the income approach and the market approach. We would validate our estimates under the income approach by reconciling the estimated fair value of the reporting units determined under the income approach to our market capitalization and estimated fair value determined under the market approach. Values from the income approach and market approach would then be evaluated and weighted to arrive at the estimated aggregate fair value of the reporting units.

The income approach includes the use of each reporting unit's projected operating results and cash flows that are discounted using a weighted-average cost of capital that reflects market participant assumptions. The projected operating results use management's best estimates of economic and market conditions over the forecasted period including assumptions for pricing and volume, operating expenses, and capital expenditures. Other significant estimates and assumptions include cost-saving synergies and tax benefits that would accrue to a market participant under a fair value methodology. The market approach estimates fair value through the use of observable inputs, including the Company's stock price.

See Note 1, *Summary of Significant Accounting Policies* , "Goodwill and Other Intangibles," and Note 6, *Goodwill and Other Intangible Assets* , to the accompanying consolidated financial statements for additional information.

The following events and circumstances are certain of the qualitative factors we consider in evaluating whether it is more likely than not the fair value of a reporting unit is less than its carrying amount:

- Macroeconomic conditions, such as deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;
- Industry and market considerations and changes in healthcare regulations, including reimbursement and compliance requirements under the Medicare and Medicaid programs;
- Cost factors, such as an increase in labor, supply, or other costs;
- Overall financial performance, such as negative or declining cash flows or a decline in actual or forecasted revenue or earnings;
- Other relevant company-specific events, such as material changes in management or key personnel or outstanding litigation;
- Material events, such as a change in the composition or carrying amount of each reporting unit's net assets, including acquisitions and dispositions; and
- Consideration of the relationship of our market capitalization to our book value, as well as a sustained decrease in our share price.

In the fourth quarter of 2015, we performed our annual evaluation of goodwill and determined no adjustment to impair goodwill was necessary. If actual results are not consistent with our assumptions and estimates, we may be exposed to goodwill impairment charges. However, at this time, we continue to believe our inpatient rehabilitation and home health and hospice reporting units are not at risk for any impairment charges.

*Income Taxes*

We provide for income taxes using the asset and liability method. We also evaluate our tax positions and establish assets and liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. See Note 1, *Summary of Significant Accounting Policies* , "Income Taxes," and Note 15, *Income Taxes* , to the accompanying consolidated financial statements for a more complete discussion of income taxes and our policies related to income taxes.

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. We are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in our consolidated financial statements.

The ultimate recovery of certain of our deferred tax assets is dependent on the amount and timing of taxable income we will ultimately generate in the future, as well as other factors. A high degree of judgment is required to determine the extent a valuation allowance should be provided against deferred tax assets. On a quarterly basis, we assess the likelihood of realization of our deferred tax assets considering all available evidence, both positive and negative. Our operating performance in recent years, the scheduled reversal of temporary differences, our forecast of taxable income in future periods in each applicable tax jurisdiction, our ability to sustain a core level of earnings, and the availability of prudent tax planning strategies are important considerations in our assessment. Our forecast of future earnings includes assumptions about patient volumes, payor reimbursement, labor costs, hospital operating expenses, and interest expense. Based on the weight of available evidence, we determine if it is more likely than not our deferred tax assets will be realized in the future.

Our liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions which are periodically audited by tax authorities. In addition, our effective income tax rate is affected by changes in tax law, the tax jurisdictions in which we operate, and the results of income tax audits.

During the year ended December 31, 2015, we increased our valuation allowance by $4.6 million. As of December 31, 2015, we had a remaining valuation allowance of $27.6 million which primarily related to state NOLs. At the state jurisdiction level, we determined it was necessary to maintain a valuation allowance due to uncertainties related to our ability to utilize a portion of the NOLs before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence, as described above, including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable.

While management believes the assumptions included in its forecast of future earnings are reasonable and it is more likely than not the net deferred tax asset balance as of December 31, 2015 will be realized, no such assurances can be provided. If management's expectations for future operating results on a consolidated basis or at the state jurisdiction level vary from actual results due to changes in healthcare regulations, general economic conditions, or other factors, we may need to increase our valuation allowance, or reverse amounts recorded currently in the valuation allowance, for all or a portion of our deferred tax assets. Similarly, future adjustments to our valuation allowance may be necessary if the timing of future tax deductions is different than currently expected. Our income tax expense in future periods will be reduced or increased to the extent of offsetting decreases or increases, respectively, in our valuation allowance in the period when the change in circumstances occurs. These changes could have a significant impact on our future earnings.

*Assessment of Loss Contingencies*

We have legal and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. See Note 1, *Summary of Significant Accounting Policies* , "Litigation Reserves," and Note 17, *Contingencies and Other Commitments* , to the accompanying consolidated financial statements for additional information.

We have provided for losses in situations where we have concluded it is probable a loss has been or will be incurred and the amount of loss is reasonably estimable. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in determining the likelihood of future events and estimating the financial statement impact of such events. If further developments or resolution of a contingent matter are not consistent with our assumptions and judgments, we may need to recognize a significant charge in a future period related to an existing contingent matter.

**Recent Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Note 1, *Summary of Significant Accounting Policies* , to the accompanying consolidated financial statements.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Our primary exposure to market risk is to changes in interest rates on our variable rate long-term debt. We use sensitivity analysis models to evaluate the impact of interest rate changes on our variable rate debt. As of December 31, 2015, our primary variable rate debt outstanding related to $130.0 million in advances under our revolving credit facility and $443.3 million outstanding under our term loan facilities. Assuming outstanding balances were to remain the same, a 1% increase in interest rates would result in an incremental negative cash flow of approximately $5.1 million over the next 12 months, while a 1% decrease in interest rates would result in an incremental positive cash flow of approximately $3.3 million over the next 12 months, assuming floating rate indices are floored at 0%.

The fair value of our fixed rate debt is determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or *Level 2* inputs within the fair value hierarchy, and is summarized as follows (in millions):

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| **Financial Instrument:** | **Book Value** | **Market Value** | **Book Value** | **Market Value** |
| 8.125% Senior Notes due 2020 | | | | |
| Carrying Value | $ — | $ — | $ 282.7 | $ — |
| Unamortized debt discount and fees | — | — | 7.3 | — |
| Principal amount | — | — | 290.0 | 302.5 |
| 7.75% Senior Notes due 2022 | | | | |
| Carrying Value | 174.3 | — | 223.7 | — |
| Unamortized debt premium and fees | 1.6 | — | 2.3 | — |
| Principal amount | 175.9 | 183.7 | 226.0 | 240.7 |
| 5.125% Senior Notes due 2023 | | | | |
| Carrying Value | 294.6 | — | — | — |
| Unamortized debt discount and fees | 5.4 | — | — | — |
| Principal amount | 300.0 | 288.0 | — | — |
| 5.75% Senior Notes due 2024 | | | | |
| Carrying Value | 1,192.6 | — | 447.4 | — |
| Unamortized debt discount and fees | 7.4 | — | 2.6 | — |
| Principal amount | 1,200.0 | 1,146.0 | 450.0 | 471.4 |
| 5.75% Senior Notes due 2025 | | | | |
| Carrying Value | 343.4 | — | — | — |
| Unamortized debt discount and fees | 6.6 | — | — | — |
| Principal amount | 350.0 | 332.5 | — | — |
| 2.00% Convertible Senior Subordinated Notes due 2043 | | | | |
| Carrying Value | 265.9 | — | 256.7 | — |
| Unamortized debt discount and fees | 54.1 | — | 63.3 | — |
| Principal amount | 320.0 | 345.0 | 320.0 | 358.4 |

Foreign operations, and the related market risks associated with foreign currencies, are currently, and have been, insignificant to our financial position, results of operations, and cash flows.

See also Note 8, *Long-term Debt* , to the accompanying consolidated financial statements.

## Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and related notes are filed together with this report. See the index to financial statements on page F-1 for a list of financial statements filed with this report.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports we file or submit under the

Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015 , our disclosure controls and procedures were effective.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on its financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2015 . In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, the COSO framework . Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015 , our internal control over financial reporting was effective.

Management has excluded the acquired operations of Reliant Hospital Partners, LLC ("Reliant") and CareSouth Health System, Inc. ("CareSouth") from its assessment of internal control over financial reporting as of December 31, 2015 because they were acquired by the Company in purchase business combinations during 2015. Combined total assets and total revenues of Reliant and CareSouth represent approximately 7% and 3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**Changes in Internal Control Over Financial Reporting**

On December 31, 2014, we completed the acquisition of EHHI Holdings, Inc. and its Encompass Home Health and Hospice business ("Encompass"). Except for any changes in internal controls related to the integration of Encompass, there were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

## PART III

We expect to file a definitive proxy statement relating to our 2016 Annual Meeting of Stockholders (the " 2016 Proxy Statement") with the United States Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of our most recent fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only the information from the 2016 Proxy Statement that specifically addresses disclosure requirements of Items 10-14 below is incorporated by reference.

### Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 is hereby incorporated by reference from our 2016 Proxy Statement under the captions "Items of Business Requiring Your Vote—Proposal 1—Election of Directors," "Corporate Governance and Board Structure—Code of Ethics," "Corporate Governance and Board Structure—Proposals for Director Nominees by Stockholders," "Corporate Governance and Board Structure—Audit Committee," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Executive Officers."

### Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2016 Proxy Statement under the captions "Corporate Governance and Board Structure—Compensation of Directors," "Compensation Committee Matters," and "Executive Compensation."

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

**Equity Compensation Plans**

The following table sets forth, as of December 31, 2015 , information concerning compensation plans under which our securities are authorized for issuance. The table does not reflect grants, awards, exercises, terminations, or expirations since that date. All share amounts and exercise prices have been adjusted to reflect stock splits that occurred after the date on which any particular underlying plan was adopted, to the extent applicable.

| | Securities to be Issued Upon Exercise | Weighted Average Price [1] | Securities Available for Future Issuance |
|---|---|---|---|
| Plans approved by stockholders | 3,435,785 [2] | $ 21.30 | 4,022,491 [3] |
| Plans not approved by stockholders | 773,603 [4] | 21.49 | — |
| Total | 4,209,388 | | 4,022,491 |

(1) This calculation does not take into account awards of restricted stock, restricted stock units, or performance share units.

(2) This amount assumes maximum performance by performance-based awards for which the performance has not yet been determined.

(3) This amount represents the number of shares available for future equity grants under the Amended and Restated 2008 Equity Incentive Plan approved by our stockholders in May 2011.

(4) This amount includes (a) 686,773 shares issuable upon exercise of stock options outstanding under the 2005 Equity Incentive Plan and (b) 86,830 restr icted stock units issued under the 2004 Amended and Restated Director Incentive Plan.

*2004 Amended and Restated Director Incentive Plan*

The 2004 Amended and Restated Director Incentive Plan (the "2004 Plan") provided for the grant of common stock, awards of restricted common stock, and the right to receive awards of common stock, which we refer to as "restricted stock units," to our nonemployee directors. The 2004 Plan expired in March 2008 and was replaced by the 2008 Equity Incentive Plan. Some awards remain outstanding. Awards granted under the 2004 Plan at the time of its termination will continue in effect in accordance with their terms. Awards of restricted stock units were fully vested when awarded and will be settled in shares of common stock on the earlier of the six-month anniversary of the date on which the director ceases to serve on the board of directors or certain change in control events. The restricted stock units generally cannot be transferred. Awards are

generally protected against dilution upon the issuance of stock dividends and in the event of a stock split, recapitalization, or other major corporate restructuring.

*2005 Equity Incentive Plan*

The 2005 Equity Incentive Plan (the "2005 Plan") provided for the grant of stock options, restricted stock, stock appreciation rights, deferred stock, and other stock-based awards to our directors, executives, and other key employees as determined by the board of directors or the compensation committee in accordance with the terms of the 2005 Plan and evidenced by an award agreement with each participant. The 2005 Plan expired in November 2008 and was replaced by the 2008 Equity Incentive Plan. Some option awards remain outstanding and are fully vested. Awards granted under the 2005 Plan at the time of its termination will continue in effect in accordance with their terms. The outstanding options have an exercise price not less than the fair market value of such shares of common stock on the date of grant and an expiration date that is ten years after the grant date. Awards are generally protected against dilution upon the issuance of stock dividends and in the event of a stock split, recapitalization, or other major corporate restructuring.

**Security Ownership of Certain Beneficial Owners and Management**

The other information required by Item 12 is hereby incorporated by reference from our 2016 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by Item 13 is hereby incorporated by reference from our 2016 Proxy Statement under the captions "Corporate Governance and Board Structure—Director Independence" and "Certain Relationships and Related Transactions."

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is hereby incorporated by reference from our 2016 Proxy Statement under the caption "Items of Business Requiring Your Vote—Proposal 2—Ratification of Appointment of Independent Registered Public Accounting Firm."

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

**Financial Statements**

See the accompanying index on page F-1 for a list of financial statements filed as part of this report.

**Financial Statement Schedules**

None.

**Exhibits**

See Exhibit Index immediately following page F-82 of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**HEALTHSOUTH CORPORATION**

By: /s/ JAY GRINNEY

**Jay Grinney**
**President and Chief Executive Officer**

Date: February 24, 2016

[Signatures continue on the following page]

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Patrick Darby his true and lawful attorney-in-fact and agent with full power of substitution and re-substitution, for him in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Capacity | Date |
|---|---|---|
| /s/ JAY GRINNEY<br>**Jay Grinney** | President and Chief Executive Officer and Director | February 24, 2016 |
| /s/ DOUGLAS E. COLTHARP<br>**Douglas E. Coltharp** | Executive Vice President and Chief Financial Officer | February 24, 2016 |
| /s/ ANDREW L. PRICE<br>**Andrew L. Price** | Chief Accounting Officer | February 24, 2016 |
| /s/ LEO I. HIGDON, JR.<br>**Leo I. Higdon, Jr.** | Chairman of the Board of Directors | February 24, 2016 |
| /s/ JOHN W. CHIDSEY<br>**John W. Chidsey** | Director | February 24, 2016 |
| /s/ DONALD L. CORRELL<br>**Donald L. Correll** | Director | February 24, 2016 |
| /s/ YVONNE M. CURL<br>**Yvonne M. Curl** | Director | February 24, 2016 |
| /s/ CHARLES M. ELSON<br>**Charles M. Elson** | Director | February 24, 2016 |
| /s/ JOAN E. HERMAN<br>**Joan E. Herman** | Director | February 24, 2016 |
| /s/ LESLYE G. KATZ<br>**Leslye G. Katz** | Director | February 24, 2016 |
| /s/ JOHN E. MAUPIN, JR.<br>**John E. Maupin, Jr.** | Director | February 24, 2016 |
| /s/ L. EDWARD SHAW, JR.<br>**L. Edward Shaw, Jr.** | Director | February 24, 2016 |

**Item 15. Financial Statements**

| | |
|---|---|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2015 | F-3 |
| Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2015 | F-4 |
| Consolidated Balance Sheets as of December 31, 2015 and 2014 | F-5 |
| Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2015 | F-6 |
| Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2015 | F-7 |
| Notes to Consolidated Financial Statements | F-9 |

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of HealthSouth Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows present fairly, in all material respects, the financial position of HealthSouth Corporation and its subsidiaries (the “Company”) at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for debt issuance costs and the manner in which it accounts for deferred taxes in 2015.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management’s Report on Internal Control over Financial Reporting, management has excluded the acquired operations of Reliant Hospital Partners, LLC (“Reliant”) and CareSouth Health System, Inc. (“CareSouth”) from its assessment of internal control over financial reporting as of December 31, 2015 because they were acquired by the Company in purchase business combinations during 2015. We have also excluded Reliant and CareSouth from our audit of internal control over financial reporting. Reliant and CareSouth are subsidiaries of HealthSouth Corporation whose combined total assets and total revenues represent approximately 7% and 3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP
Birmingham, Alabama
February 24, 2016

**HealthSouth Corporation and Subsidiaries**

**Consolidated Statements of Operations**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | (In Millions, Except Per Share Data) | | |
| Net operating revenues | **$ 3,162.9** | $ 2,405.9 | $ 2,273.2 |
| Less: Provision for doubtful accounts | **(47.2)** | (31.6) | (26.0) |
| Net operating revenues less provision for doubtful accounts | **3,115.7** | 2,374.3 | 2,247.2 |
| Operating expenses: | | | |
| Salaries and benefits | **1,670.8** | 1,161.7 | 1,089.7 |
| Other operating expenses | **432.1** | 351.6 | 323.0 |
| Occupancy costs | **53.9** | 41.6 | 47.0 |
| Supplies | **128.7** | 111.9 | 105.4 |
| General and administrative expenses | **133.3** | 124.8 | 119.1 |
| Depreciation and amortization | **139.7** | 107.7 | 94.7 |
| Government, class action, and related settlements | **7.5** | (1.7) | (23.5) |
| Professional fees—accounting, tax, and legal | **3.0** | 9.3 | 9.5 |
| Total operating expenses | **2,569.0** | 1,906.9 | 1,764.9 |
| Loss on early extinguishment of debt | **22.4** | 13.2 | 2.4 |
| Interest expense and amortization of debt discounts and fees | **142.9** | 109.2 | 100.4 |
| Other income | **(5.5)** | (31.2) | (4.5) |
| Equity in net income of nonconsolidated affiliates | **(8.7)** | (10.7) | (11.2) |
| Income from continuing operations before income tax expense | **395.6** | 386.9 | 395.2 |
| Provision for income tax expense | **141.9** | 110.7 | 12.7 |
| Income from continuing operations | **253.7** | 276.2 | 382.5 |
| (Loss) income from discontinued operations, net of tax | **(0.9)** | 5.5 | (1.1) |
| **Net income** | **252.8** | 281.7 | 381.4 |
| Less: Net income attributable to noncontrolling interests | **(69.7)** | (59.7) | (57.8) |
| **Net income attributable to HealthSouth** | **183.1** | 222.0 | 323.6 |
| Less: Convertible perpetual preferred stock dividends | **(1.6)** | (6.3) | (21.0) |
| Less: Repurchase of convertible perpetual preferred stock | **—** | — | (71.6) |
| **Net income attributable to HealthSouth common shareholders** | **$ 181.5** | $ 215.7 | $ 231.0 |
| **Weighted average common shares outstanding:** | | | |
| Basic | **89.4** | 86.8 | 88.1 |
| Diluted | **101.0** | 100.7 | 102.1 |
| **Earnings per common share:** | | | |
| **Basic earnings per share attributable to HealthSouth common shareholders:** | | | |
| Continuing operations | **$ 2.03** | $ 2.40 | $ 2.59 |
| Discontinued operations | **(0.01)** | 0.06 | (0.01) |
| Net income | **$ 2.02** | $ 2.46 | $ 2.58 |
| **Diluted earnings per share attributable to HealthSouth common shareholders:** | | | |
| Continuing operations | **$ 1.92** | $ 2.24 | $ 2.59 |
| Discontinued operations | **(0.01)** | 0.05 | (0.01) |
| Net income | **$ 1.91** | $ 2.29 | $ 2.58 |
| **Cash dividends per common share** | **$ 0.88** | $ 0.78 | $ 0.36 |
| **Amounts attributable to HealthSouth common shareholders:** | | | |
| Income from continuing operations | **$ 184.0** | $ 216.5 | $ 324.7 |
| (Loss) income from discontinued operations, net of tax | **(0.9)** | 5.5 | (1.1) |
| Net income attributable to HealthSouth | **$ 183.1** | $ 222.0 | $ 323.6 |

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

**HealthSouth Corporation and Subsidiaries**

**Consolidated Statements of Comprehensive Income**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | (In Millions) | | |
| **COMPREHENSIVE INCOME** | | | |
| Net income | **$ 252.8** | $ 281.7 | $ 381.4 |
| Other comprehensive loss, net of tax: | | | |
| Net change in unrealized loss on available-for-sale securities: | | | |
| Unrealized net holding loss arising during the period | **(0.1)** | (0.2) | (0.7) |
| Reclassifications to net income | **(1.2)** | (0.5) | (0.9) |
| Other comprehensive loss before income taxes | **(1.3)** | (0.7) | (1.6) |
| Provision for income tax benefit related to other comprehensive loss items | **0.6** | 0.3 | 0.1 |
| Other comprehensive loss, net of tax: | **(0.7)** | (0.4) | (1.5) |
| **Comprehensive income** | **252.1** | 281.3 | 379.9 |
| Comprehensive income attributable to noncontrolling interests | **(69.7)** | (59.7) | (57.8) |
| **Comprehensive income attributable to HealthSouth** | **$ 182.4** | $ 221.6 | $ 322.1 |

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

**HealthSouth Corporation and Subsidiaries**

**Consolidated Balance Sheets**

| | As of December 31, | |
|---|---|---|
| | **2015** | **2014** |
| | **(In Millions, Except Share Data)** | |
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | **$ 61.6** | $ 66.7 |
| Restricted cash | **45.9** | 45.6 |
| Accounts receivable, net of allowance for doubtful accounts of $39.3 in 2015; $22.2 in 2014 | **410.5** | 323.2 |
| Deferred income tax assets | **—** | 188.4 |
| Prepaid expenses and other current assets | **80.7** | 62.7 |
| Total current assets | **598.7** | 686.6 |
| Property and equipment, net | **1,310.1** | 1,019.7 |
| Goodwill | **1,890.1** | 1,084.0 |
| Intangible assets, net | **419.4** | 306.1 |
| Deferred income tax assets | **190.8** | 129.4 |
| Other long-term assets | **197.0** | 162.5 |
| **Total assets** | **$ 4,606.1** | $ 3,388.3 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Current portion of long-term debt | **$ 36.8** | $ 20.8 |
| Accounts payable | **61.6** | 53.4 |
| Accrued payroll | **126.2** | 123.3 |
| Accrued interest payable | **29.7** | 21.2 |
| Other current liabilities | **172.1** | 145.6 |
| Total current liabilities | **426.4** | 364.3 |
| Long-term debt, net of current portion | **3,134.7** | 2,090.4 |
| Self-insured risks | **101.6** | 98.7 |
| Other long-term liabilities | **43.0** | 37.5 |
| | **3,705.7** | 2,590.9 |
| Commitments and contingencies | | |
| Convertible perpetual preferred stock, $.10 par value; 1,500,000 shares authorized; zero shares issued in 2015 and 96,245 shares issued in 2014 ; liquidation preference of $1,000 per share | **—** | 93.2 |
| Redeemable noncontrolling interests | **121.1** | 84.7 |
| **Shareholders' equity:** | | |
| HealthSouth shareholders' equity: | | |
| Common stock, $.01 par value; 200,000,000 shares authorized; issued: 108,275,900 in 2015; 104,058,832 in 2014 | **1.1** | 1.0 |
| Capital in excess of par value | **2,834.9** | 2,810.5 |
| Accumulated deficit | **(1,696.0)** | (1,879.1) |
| Accumulated other comprehensive loss | **(1.2)** | (0.5) |
| Treasury stock, at cost ( 18,145,822 shares in 2015 and 16,270,159 shares in 2014) | **(527.4)** | (458.7) |
| Total HealthSouth shareholders' equity | **611.4** | 473.2 |
| Noncontrolling interests | **167.9** | 146.3 |
| Total shareholders' equity | **779.3** | 619.5 |
| **Total liabilities and shareholders' equity** | **$ 4,606.1** | $ 3,388.3 |

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

**HealthSouth Corporation and Subsidiaries**

**Consolidated Statements of Shareholders' Equity**

| | HealthSouth Common Shareholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Noncontrolling Interests | Total |
| | (In Millions) | | | | | | | |
| **December 31, 2012** | 95.7 | $ 1.0 | $ 2,876.6 | $ (2,424.7) | $ 1.4 | $ (163.3) | $ 112.5 | $ 403.5 |
| Net income | — | — | — | 323.6 | — | — | 52.0 | 375.6 |
| Receipt of treasury stock | (0.3) | — | — | — | — | (5.8) | — | (5.8) |
| Dividends declared on common stock | — | — | (32.0) | — | — | — | — | (32.0) |
| Dividends declared on convertible perpetual preferred stock | — | — | (21.0) | — | — | — | — | (21.0) |
| Stock-based compensation | — | — | 24.8 | — | — | — | — | 24.8 |
| Stock options exercised | 0.3 | — | 8.2 | — | — | — | — | 8.2 |
| Stock warrants exercised | 0.5 | — | 15.3 | — | — | — | — | 15.3 |
| Distributions declared | — | — | — | — | — | — | (40.4) | (40.4) |
| Repurchases of common stock through tender offer | (9.1) | — | — | — | — | (234.1) | — | (234.1) |
| Repurchase of preferred stock through convertible exchange | — | — | (71.6) | — | — | — | — | (71.6) |
| Equity portion of convertible debt | — | — | 71.0 | — | — | — | — | 71.0 |
| Tax impact of equity portion of convertible debt | — | — | (28.0) | — | — | — | — | (28.0) |
| Other | 0.9 | — | 6.1 | — | (1.5) | (1.4) | — | 3.2 |
| **December 31, 2013** | 88.0 | 1.0 | 2,849.4 | (2,101.1) | (0.1) | (404.6) | 124.1 | 468.7 |
| Net income | — | — | — | 222.0 | — | — | 53.1 | 275.1 |
| Receipt of treasury stock | (0.3) | — | — | — | — | (9.7) | — | (9.7) |
| Dividends declared on common stock | — | — | (69.0) | — | — | — | — | (69.0) |
| Dividends declared on convertible perpetual preferred stock | — | — | (6.3) | — | — | — | — | (6.3) |
| Stock-based compensation | — | — | 23.9 | — | — | — | — | 23.9 |
| Stock options exercised | 0.3 | — | 7.5 | — | — | (0.1) | — | 7.4 |
| Stock warrants exercised | 0.2 | — | 6.3 | — | — | — | — | 6.3 |
| Distributions declared | — | — | — | — | — | — | (44.9) | (44.9) |
| Repurchases of common stock in open market | (1.3) | — | — | — | — | (43.1) | — | (43.1) |
| Consolidation of Fairlawn Rehabilitation Hospital | — | — | — | — | — | — | 14.0 | 14.0 |
| Other | 0.9 | — | (1.3) | — | (0.4) | (1.2) | — | (2.9) |
| **December 31, 2014** | 87.8 | 1.0 | 2,810.5 | (1,879.1) | (0.5) | (458.7) | 146.3 | 619.5 |
| Net income | **—** | **—** | **—** | **183.1** | **—** | **—** | **55.9** | **239.0** |
| Conversion of preferred stock | **3.3** | **—** | **93.2** | **—** | **—** | **—** | **—** | **93.2** |
| Receipt of treasury stock | **(0.5)** | **—** | **—** | **—** | **—** | **(17.2)** | **—** | **(17.2)** |
| Dividends declared on common stock | **—** | **—** | **(79.9)** | **—** | **—** | **—** | **—** | **(79.9)** |
| Dividends declared on convertible perpetual preferred stock | **—** | **—** | **(1.6)** | **—** | **—** | **—** | **—** | **(1.6)** |
| Stock-based compensation | **—** | **—** | **22.4** | **—** | **—** | **—** | **—** | **22.4** |
| Stock options exercised | **0.2** | **—** | **6.7** | **—** | **—** | **(4.4)** | **—** | **2.3** |
| Distributions declared | **—** | **—** | **—** | **—** | **—** | **—** | **(49.0)** | **(49.0)** |
| Repurchases of common stock in open market | **(1.3)** | **—** | **—** | **—** | **—** | **(45.3)** | **—** | **(45.3)** |
| Capital contributions from consolidated affiliates | **—** | **—** | **—** | **—** | **—** | **—** | **14.8** | **14.8** |
| Fair value adjustments to redeemable noncontrolling interests, net of tax | **—** | **—** | **(18.2)** | **—** | **—** | **—** | **—** | **(18.2)** |
| Other | **0.6** | **0.1** | **1.8** | **—** | **(0.7)** | **(1.8)** | **(0.1)** | **(0.7)** |
| **December 31, 2015** | **90.1** | **$ 1.1** | **$ 2,834.9** | **$ (1,696.0)** | **$ (1.2)** | **$ (527.4)** | **$ 167.9** | **$ 779.3** |

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

**HealthSouth Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | (In Millions) | | |
| **Cash flows from operating activities:** | | | |
| Net income | **$ 252.8** | $ 281.7 | $ 381.4 |
| Loss (income) from discontinued operations, net of tax | **0.9** | (5.5) | 1.1 |
| Adjustments to reconcile net income to net cash provided by operating activities— | | | |
| Provision for doubtful accounts | **47.2** | 31.6 | 26.0 |
| Provision for government, class action, and related settlements | **7.5** | (1.7) | (23.5) |
| Depreciation and amortization | **139.7** | 107.7 | 94.7 |
| Amortization of debt-related items | **14.3** | 12.7 | 5.0 |
| Loss on early extinguishment of debt | **22.4** | 13.2 | 2.4 |
| Equity in net income of nonconsolidated affiliates | **(8.7)** | (10.7) | (11.2) |
| Distributions from nonconsolidated affiliates | **7.7** | 12.6 | 11.4 |
| Stock-based compensation | **26.2** | 23.9 | 24.8 |
| Deferred tax expense | **127.1** | 97.4 | 6.4 |
| Gain on consolidation of Fairlawn | **—** | (27.2) | — |
| Other | **(0.6)** | 4.8 | 4.3 |
| (Increase) decrease in assets, net of acquisitions— | | | |
| Accounts receivable | **(134.1)** | (91.6) | (55.1) |
| Prepaid expenses and other assets | **(9.6)** | 6.5 | (4.8) |
| Increase (decrease) in liabilities, net of acquisitions— | | | |
| Accounts payable | **0.9** | 5.4 | 6.4 |
| Other liabilities | **(4.3)** | (10.4) | 4.6 |
| Premium received on bond issuance | **9.8** | 6.3 | — |
| Premium paid on redemption of bonds | **(13.7)** | (10.6) | (1.7) |
| Net cash used in operating activities of discontinued operations | **(0.7)** | (1.2) | (1.9) |
| Total adjustments | **231.1** | 168.7 | 87.8 |
| **Net cash provided by operating activities** | **484.8** | 444.9 | 470.3 |
| **Cash flows from investing activities:** | | | |
| Acquisition of businesses, net of cash acquired | **(985.1)** | (694.8) | (28.9) |
| Purchases of property and equipment | **(128.4)** | (170.9) | (195.2) |
| Capitalized software costs | **(28.1)** | (17.0) | (21.3) |
| Proceeds from sale of restricted investments | **0.2** | 0.3 | 16.9 |
| Proceeds from sale of Digital Hospital | **—** | — | 10.8 |
| Proceeds from sale of marketable securities | **12.8** | — | — |
| Purchases of restricted investments | **(7.1)** | (3.5) | (9.2) |
| Net change in restricted cash | **2.7** | 6.8 | (3.1) |
| Other | **2.7** | 2.2 | 0.5 |
| Net cash provided by investing activities of discontinued operations | **0.5** | — | 3.3 |
| **Net cash used in investing activities** | **(1,129.8)** | **(876.9)** | **(226.2)** |

(Continued)

**HealthSouth Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | | (In Millions) | |
| **Cash flows from financing activities:** | | | |
| Principal borrowings on term loan facilities | **250.0** | 450.0 | — |
| Proceeds from bond issuance | **1,400.0** | 175.0 | — |
| Principal payments on debt, including pre-payments | **(597.4)** | (302.6) | (62.5) |
| Principal borrowings on notes | — | — | 15.2 |
| Borrowings on revolving credit facility | **540.0** | 440.0 | 197.0 |
| Payments on revolving credit facility | **(735.0)** | (160.0) | (152.0) |
| Principal payments under capital lease obligations | **(11.0)** | (6.1) | (10.1) |
| Debt amendment and issuance costs | **(31.9)** | (6.5) | (2.6) |
| Repurchases of common stock, including fees and expenses | **(45.3)** | (43.1) | (234.1) |
| Dividends paid on common stock | **(77.2)** | (65.8) | (15.7) |
| Dividends paid on convertible perpetual preferred stock | **(3.1)** | (6.3) | (23.0) |
| Distributions paid to noncontrolling interests of consolidated affiliates | **(54.4)** | (54.1) | (46.3) |
| Proceeds from exercising stock warrants | — | 6.3 | 15.3 |
| Other | **5.2** | 7.4 | 6.4 |
| **Net cash provided by (used in) financing activities** | **639.9** | 434.2 | (312.4) |
| **(Decrease) increase in cash and cash equivalents** | **(5.1)** | 2.2 | (68.3) |
| **Cash and cash equivalents at beginning of year** | **66.7** | 64.5 | 132.8 |
| **Cash and cash equivalents at end of year** | **$ 61.6** | $ 66.7 | $ 64.5 |
| | | | |
| **Supplemental cash flow information:** | | | |
| Cash (paid) received during the year for — | | | |
| Interest | **$ (121.4)** | $ (100.6) | $ (99.4) |
| Income tax refunds | **7.4** | 1.3 | 4.8 |
| Income tax payments | **(16.8)** | (17.7) | (12.5) |
| | | | |
| **Supplemental schedule of noncash investing and financing activities:** | | | |
| Convertible debt issued | **$ —** | $ — | $ 320.0 |
| Repurchase of preferred stock | — | — | (320.0) |
| Equity rollover from Encompass management | — | 64.5 | — |
| Preferred stock conversion | **93.2** | — | — |

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

## 1. Summary of Significant Accounting Policies :

*Organization and Description of Business—*

HealthSouth Corporation, incorporated in Delaware in 1984 , including its subsidiaries, is one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 34 states and Puerto Rico through our network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. As a result of the December 31, 2014 acquisition of Encompass Home Health and Hospice ("Encompass"), management changed the way it manages and operates the consolidated reporting entity and modified the reports used by its chief operating decision maker to assess performance and allocate resources. These changes required us to revise our segment reporting from our historic presentation of only one reportable segment. We now manage our operations and disclose financial information using two reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. See Note 18 , *Segment Reporting* .

*Basis of Presentation and Consolidation—*

The accompanying consolidated financial statements of HealthSouth and its subsidiaries were prepared in accordance with generally accepted accounting principles in the United States of America and include the assets, liabilities, revenues, and expenses of all wholly-owned subsidiaries, majority-owned subsidiaries over which we exercise control, and, when applicable, entities in which we have a controlling financial interest.

We use the equity method to account for our investments in entities we do not control, but where we have the ability to exercise significant influence over operating and financial policies. Consolidated *Net income attributable to HealthSouth* includes our share of the net earnings of these entities. The difference between consolidation and the equity method impacts certain of our financial ratios because of the presentation of the detailed line items reported in the consolidated financial statements for consolidated entities compared to a one line presentation of equity method investments.

We use the cost method to account for our investments in entities we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at the lower of cost or fair value, as appropriate.

We also consider the guidance for consolidating variable interest entities.

We eliminate all significant intercompany accounts and transactions from our financial results.

*Use of Estimates and Assumptions—*

The preparation of our consolidated financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for contractual revenue adjustments; (2) allowance for doubtful accounts; (3) fair value of acquired assets and assumed liabilities in business combinations; (4) asset impairments, including goodwill; (5) depreciable lives of assets; (6) useful lives of intangible assets; (7) economic lives and fair value of leased assets; (8) income tax valuation allowances; (9) uncertain tax positions; (10) fair value of stock options and restricted stock containing a market condition; (11) fair value of redeemable noncontrolling interests; (12) reserves for self-insured healthcare plans; (13) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; and (14) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

*Risks and Uncertainties—*

As a healthcare provider, we are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

- licensure, certification, and accreditation;
- policies, either at the national or local level, delineating what conditions must be met to qualify for reimbursement under Medicare (also referred to as coverage requirements);
- coding and billing for services;
- requirements of the 60% compliance threshold under The Medicare, Medicaid and State Children's Health Insurance Program (SCHIP) Extension Act of 2007;
- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws;
- quality of medical care;
- use and maintenance of medical supplies and equipment;
- maintenance and security of patient information and medical records;
- acquisition and dispensing of pharmaceuticals and controlled substances; and
- disposal of medical and hazardous waste.

In the future, changes in these laws or regulations or the manner in which they are enforced could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our hospitals, equipment, personnel, services, capital expenditure programs, operating procedures, contractual arrangements, and patient admittance practices, as well as the way in which we deliver home health and hospice services.

If we fail to comply with applicable laws and regulations, we could be required to return portions of reimbursements deemed after the fact to have not been appropriate. We could also be subjected to liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our hospitals or agencies, and (3) exclusion or suspension of one or more of our hospitals from participation in the Medicare, Medicaid, and other federal and state healthcare programs which, if lengthy in duration and material to us, could potentially trigger a default under our credit agreement. Because Medicare comprises a significant portion of our *Net operating revenues* , it is important for us to remain compliant with the laws and regulations governing the Medicare program and related matters including anti-kickback and anti-fraud requirements. Reductions in reimbursements, substantial damages, and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operation, and cash flows. Even the assertion of a violation, depending on its nature, could have a material adverse effect upon our stock price or reputation.

Historically, the United States Congress and some state legislatures have periodically proposed significant changes in regulations governing the healthcare system. Many of these changes have resulted in limitations on the increases in and, in some cases, significant roll-backs or reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes or reimbursement reductions. Because we receive a significant percentage of our revenues from Medicare, such changes in legislation might have a material adverse effect on our financial position, results of operations, and cash flows.

Pursuant to legislative directives and authorizations from Congress, the United States Centers for Medicare and Medicaid Services ("CMS") developed and instituted various Medicare audit programs. We undertake significant efforts through training and education to ensure compliance with coding and medical necessity coverage rules. Despite our belief that our coding and assessment of patients is accurate, audits may lead to assertions that we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records

and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. We cannot predict when or how these programs will affect us.

In addition, there are increasing pressures from many third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. Our relationships with managed care and nongovernmental third-party payors are generally governed by negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. We could be adversely affected in some of the markets where we operate if we are unable to negotiate and maintain favorable agreements with third-party payors.

Our third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to us. We could be adversely affected in some of the markets where we operate if the auditing payor alleges substantial overpayments were made to us due to coding errors or lack of documentation to support medical necessity determinations.

As discussed in Note 17, *Contingencies and Other Commitments* , we are a party to a number of lawsuits. We cannot predict the outcome of litigation filed against us. Substantial damages or other monetary remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

*Net Operating Revenues—*

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Medicare | 74.9% | 74.1% | 74.5% |
| Managed care and other discount plans, including Medicare Advantage | 17.7% | 18.6% | 18.5% |
| Medicaid | 3.0% | 1.8% | 1.2% |
| Other third-party payors | 1.7% | 1.8% | 1.8% |
| Workers' compensation | 0.9% | 1.2% | 1.2% |
| Patients | 0.6% | 1.0% | 1.1% |
| Other income | 1.2% | 1.5% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% |

We record gross service charges in our accounting records on an accrual basis using our established rates for the type of service provided to the patient. We recognize an estimated contractual allowance and an estimate of potential subsequent adjustments that may arise from post-payment and other reviews to reduce gross patient charges to the amount we estimate we will actually realize for the service rendered based upon previously agreed to rates with a payor. Our accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor.

Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Due to complexities involved in determining amounts ultimately due under reimbursement arrangements with third-party payors, which are often subject to interpretation, we may receive reimbursement for healthcare services authorized and provided that is different from our estimates, and such differences could be material. In addition, laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation, and are routinely modified for provider reimbursement. All healthcare providers participating in the Medicare and Medicaid programs are required to meet certain financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided under each hospital, home health, and hospice provider number to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to HealthSouth under these reimbursement programs. These audits often require several years to reach the final determination of amounts earned under the programs. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

CMS has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information an overpayment, fraud, or willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to us. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General (the “HHS-OIG”) or the United States Department of Justice. Therefore, we are unable to predict if or when we may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our financial position, results of operations, and cash flows.

Pursuant to legislative directives and authorizations from Congress, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. As a matter of course, we undertake significant efforts through training and education to ensure compliance with Medicare requirements. However, audits may lead to assertions we have been underpaid or overpaid by Medicare or submitted improper claims in some instances, require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. We cannot predict when or how these audit programs will affect us.

Inpatient Rehabilitation Revenues

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

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Medicare | 73.2% | 73.9% | 74.2% |
| Managed care and other discount plans, including Medicare Advantage | 19.0% | 18.8% | 18.7% |
| Medicaid | 2.5% | 1.8% | 1.2% |
| Other third-party payors | 2.0% | 1.8% | 1.8% |
| Workers’ compensation | 1.1% | 1.2% | 1.3% |
| Patients | 0.7% | 1.0% | 1.1% |
| Other income | 1.5% | 1.5% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% |

Revenues recognized by our inpatient rehabilitation segment are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related accounts receivable. Factors that are considered and could influence the level of our reserves include the patient’s total length of stay for in-house patients, each patient’s discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes, and additional reserves are provided to account for these factors.

In connection with CMS approved and announced Recovery Audit Contractors (“RACs”) audits related to inpatient rehabilitation facilities (“IRFs”), we received requests in 2014 and 2013 to review certain patient files for discharges occurring from 2010 to 2014. These post-payment RAC audits are focused on medical necessity requirements for admission to IRFs rather than targeting a specific diagnosis code as in previous pre-payment audits. Medical necessity is an assessment by an independent physician of a patient’s ability to tolerate and benefit from intensive multi-disciplinary therapy provided in an IRF setting.

To date, the Medicare payments that are subject to these audit requests represent less than 1% of our Medicare patient discharges from 2010 to 2014, and not all of these patient file requests have resulted in payment denial determinations by the RACs. Because we have confidence in the medical judgment of both the referring and the admitting physicians who assess the treatment needs of their patients, we have appealed substantially all RAC denials arising from these audits using the same

process we follow for appealing denials of certain diagnosis codes by Medicare Administrative Contractors ("MACs") (see "Accounts Receivable and Allowance for Doubtful Accounts" below). Due to the delays announced by CMS in the related adjudication process, we believe the resolution of any claims that are subsequently denied as a result of these RAC audits could take in excess of three years. In addition, because we have limited experience with RACs in the context of post-payment reviews of this nature, we cannot provide assurance as to the future success of these disputes. As such, we make provisions for these claims based on our historical experience and success rates in the claims adjudication process, which is the same process we follow for appealing denials of certain diagnosis codes by MACs. As the ultimate results of these audits impact our estimates of amounts determined to be due to HealthSouth under these reimbursement programs, our provision for claims that are part of this post-payment review process are recorded to *Net operating revenues* . During 2015 and 2014, we adjusted our *Net operating revenues* by approximately ($0.6) million and $0.4 million , respectively, for post-payment claims that are part of this review process.

Home Health and Hospice Revenues

The results of operations for our home health and hospice segment in 2014 and 2013 included only the results of HealthSouth's legacy hospital-based home health agencies. Our home health and hospice segment derived its *Net operating revenues* from the following payor sources:

| | As of December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Medicare | 83.7% | 96.9% | 95.8% |
| Managed care and other discount plans, including Medicare Advantage | 10.7% | 1.8% | 2.5% |
| Medicaid | 5.5% | —% | —% |
| Other third-party payors | —% | 1.0% | 1.4% |
| Workers' compensation | —% | 0.3% | 0.3% |
| Patients | 0.1% | —% | —% |
| Total | 100.0% | 100.0% | 100.0% |

Home health and hospice revenues are earned as services are performed either on an episode of care basis, on a per visit basis, or on a daily basis, depending upon the payment terms and conditions established with each payor for services provided.

*Home Health*

Under the Medicare home health prospective payment system, we are paid by Medicare based on episodes of care. An episode of care is defined as a length of stay up to 60 days, with multiple continuous episodes allowed. A base episode payment is established by the Medicare program through federal legislation. The base episode payment can be adjusted based on each patient's health including clinical condition, functional abilities, and service needs, as well as for the applicable geographic wage index, low utilization, patient transfers, and other factors. The services covered by the episode payment include all disciplines of care in addition to medical supplies.

A portion of reimbursement from each Medicare episode is billed near the start of each episode, and cash is typically received before all services are rendered. Revenue for the episode of care is recorded over an average length of treatment period using a calendar day prorating method. The amount of revenue recognized for episodes of care which are incomplete at period end is based on the pro rata number of days in the episode which have been completed as of the period end date. As of December 31, 2015 , the difference between the cash received from Medicare for a request for anticipated payment on episodes in progress and the associated estimated revenue was not material and was recorded in *Other current liabilities* in our condensed consolidated balance sheets.

We are subject to certain Medicare regulations affecting outlier revenue if our patient's care was unusually costly. Regulations require a cap on all outlier revenue at 10% of total Medicare revenue received by each provider during a cost

reporting year. Management has reviewed the potential cap. Reserves recorded for the outlier cap were not material as of December 31, 2015 .

For episodic-based rates that are paid by other insurance carriers, including Medicare Advantage, we recognize revenue in a similar manner as discussed above for Medicare revenues. However, these rates can vary based upon the negotiated terms. For non-episodic-based revenue, gross revenue is recorded on an accrual basis based upon the date of service at amounts equal to our established or estimated per-visit rates. Contractual allowances are recorded for the differences between our standard rates and the applicable contracted rates.

*Hospice*

Medicare revenues for hospice are recorded on an accrual basis based on the number of days a patient has been on service at amounts equal to an estimated daily or hourly payment rate. The payment rate is dependent on whether a patient is receiving routine home care, general inpatient care, continuous home care or respite care. Adjustments to Medicare revenues are recorded based on an inability to obtain appropriate billing documentation or authorizations acceptable to the payor or other reasons unrelated to credit risk. Hospice companies are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Medicare fiscal intermediary. Currently, we do not believe we are at risk for exceeding these caps and have not recorded a reserve for these caps as of December 31, 2015 .

For non-Medicare hospice revenues, we record gross revenue on an accrual basis based upon the date of service at amounts equal to our established rates or estimated per day rates, as applicable. Contractual adjustments are recorded for the difference between our established rates and the amounts estimated to be realizable from patients and third parties for services provided and are deducted from gross revenue to determine our net service revenue.

We are subject to changes in government legislation that could impact Medicare payment levels and changes in payor patterns that may impact the level and timing of payments for services rendered.

*Cash and Cash Equivalents—*

*Cash and cash equivalents* include highly liquid investments with maturities of three months or less when purchased. Carrying values of *Cash and cash equivalents* approximate fair value due to the short-term nature of these instruments.

We maintain amounts on deposit with various financial institutions, which may, at times, exceed federally insured limits. However, management periodically evaluates the credit-worthiness of those institutions, and we have not experienced any losses on such deposits.

*Marketable Securities—*

We record all equity securities with readily determinable fair values and for which we do not exercise significant influence as available-for-sale securities. We carry the available-for-sale securities at fair value and report unrealized holding gains or losses, net of income taxes, in *Accumulated other comprehensive loss* , which is a separate component of shareholders' equity. We recognize realized gains and losses in our consolidated statements of operations using the specific identification method.

Unrealized losses are charged against earnings when a decline in fair value is determined to be other than temporary. Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than cost, the financial condition and near term prospects of the issuer, industry, or geographic area and our ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

*Accounts Receivable and Allowance for Doubtful Accounts—*

We report accounts receivable at estimated net realizable amounts from services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, workers' compensation programs, employers, and patients. Our accounts receivable are geographically dispersed, but a significant portion of our revenues are concentrated by type of payors. The concentration of net patient service accounts receivable by payor class, as a percentage of total net patient service accounts receivable, is as follows:

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Medicare | 70.5% | 72.2% |
| Managed care and other discount plans, including Medicare Advantage | 19.7% | 18.5% |
| Medicaid | 2.9% | 1.8% |
| Other third-party payors | 4.1% | 3.8% |
| Workers' compensation | 1.9% | 1.9% |
| Patients | 0.9% | 1.8% |
| Total | 100.0% | 100.0% |

While revenues and accounts receivable from the Medicare program are significant to our operations, we do not believe there are significant credit risks associated with this government agency. We do not believe there are any other significant concentrations of revenues from any particular payor that would subject us to any significant credit risks in the collection of our accounts receivable.

We provide for accounts receivable that could become uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Additions to the allowance for doubtful accounts are made by means of the *Provision for doubtful accounts* . We write off uncollectible accounts (after exhausting collection efforts) against the allowance for doubtful accounts. Subsequent recoveries are recorded via the *Provision for doubtful accounts* .

We estimate our allowance for doubtful accounts based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors so that the remaining receivables, net of allowances, are reflected at their estimated net realizable values. Accounts requiring collection efforts are reviewed via system-generated work queues that automatically stage (based on age and size of outstanding balance) accounts requiring collection efforts for patient account representatives. Collection efforts include contacting the applicable party (both in writing and by telephone), providing information (both financial and clinical) to allow for payment or to overturn payor decisions to deny payment, and arranging payment plans with self-pay patients, among other techniques. When we determine all in-house efforts have been exhausted or it is a more prudent use of resources, accounts may be turned over to a collection agency. Accounts are written off after all collection efforts (internal and external) have been exhausted.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors, and patients is our primary source of cash and is critical to our operating performance. While it is our policy to verify insurance prior to a patient being admitted, there are various exceptions that can occur. Such exceptions include instances where we are (1) unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid, and it takes several days, weeks, or months before qualification for such benefits is confirmed or denied, and (3) the patient is transferred to our hospital from an acute care hospital without having access to a credit card, cash, or check to pay the applicable patient responsibility amounts (i.e., deductibles and co-payments).

Our primary collection risks relate to patient responsibility amounts and pre-payment claim reviews conducted by MACs. Patient responsibility amounts include accounts for which the patient was the primary payor or the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient co-payment amounts remain outstanding. Changes in the economy, such as increased unemployment rates or periods of recession, can further exacerbate our ability to collect patient responsibility amounts.

For several years, under programs designated as "widespread probes," certain of our MACs have conducted pre-payment claim reviews of our billings and denied payment for certain diagnosis codes. We dispute, or "appeal," most of these denials, and we have historically collected approximately 71% o f all amounts denied. For claims we choose to take to administrative law judge hearings, we have historically experienced an approxim ate 70% success rate. The resolution of these disputes can take in excess of three years, and we cannot provide assurance as to our ongoing and future success of these disputes. As such, we make provisions against these receivables in accordance with our accounting policy that necessarily considers historical collection trends of the receivables in this review process as part of our *Provision for doubtful accounts* . Because we do not write-off receivables until all collection efforts have been exhausted, we do not write off receivables related to denied claims while they are in this review process. When the amount collected related to denied claims differs from the net amount previously recorded, these collection differences are recorded in the *Provision for doubtful accounts* . As a result, the timing of these denials by MACs and their subsequent collection can create volatility in our *Provision for doubtful accounts* .

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. Changes in general economic conditions, business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable, financial position, results of operations, and cash flows.

*Property and Equipment—*

We report land, buildings, improvements, vehicles, and equipment at cost, net of accumulated depreciation and amortization and any asset impairments. We report assets under capital lease obligations at the lower of fair value or the present value of the aggregate future minimum lease payments at the beginning of the lease term. We depreciate our assets using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured. Useful lives are generally as follows:

| | Years |
|---|---|
| Buildings | 10 to 30 |
| Leasehold improvements | 2 to 15 |
| Vehicles | 5 |
| Furniture, fixtures, and equipment | 3 to 10 |
| Assets under capital lease obligations: | |
| Real estate | 15 to 20 |
| Vehicles | 3 to 4 |
| Equipment | 3 to 5 |

Maintenance and repairs of property and equipment are expensed as incurred. We capitalize replacements and betterments that increase the estimated useful life of an asset. We capitalize pre-acquisition costs when they are directly identifiable with a specific property, the costs would be capitalizable if the property were already acquired, and acquisition of the property is probable. We capitalize interest expense on major construction and development projects while in progress.

We retain fully depreciated assets in property and accumulated depreciation accounts until we remove them from service. In the case of sale, retirement, or disposal, the asset cost and related accumulated depreciation balances are removed from the respective accounts, and the resulting net amount, less any proceeds, is included as a component of income from continuing operations in the consolidated statements of operations. However, if the sale, retirement, or disposal involves a discontinued operation, the resulting net amount, less any proceeds, is included in the results of discontinued operations.

We account for operating leases by recognizing rents, including any rent holidays, on a straight-line basis over the term of the lease.

*Goodwill and Other Intangible Assets—*

We are required to test our goodwill and indefinite-lived intangible asset for impairment at least annually, absent some triggering event that would accelerate an impairment assessment. Absent any impairment indicators, we perform this impairment testing as of October 1st of each year. We recognize an impairment charge for any amount by which the carrying amount of the asset exceeds its implied fair value. We present an impairment charge as a separate line item within income from continuing operations in the consolidated statements of operations, unless the impairment is associated with a discontinued operation. In that case, we include the impairment charge, on a net-of-tax basis, within the results of discontinued operations.

We assess qualitative factors in our inpatient rehabilitation and home health and hospice reporting units to determine whether it is necessary to perform the first step of the two-step quantitative impairment test. If, based on this qualitative assessment, we were to believe we must proceed to Step 1, we would determine the fair value of our reporting units using generally accepted valuation techniques including the income approach and the market approach. The income approach includes the use of each reporting unit's discounted projected operating results and cash flows. This approach includes many assumptions related to pricing and volume, operating expenses, capital expenditures, discount factors, tax rates, etc. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods. We reconcile the estimated fair value of our reporting units to our market capitalization. When we dispose of a hospital or home health or hospice agency, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

We assess qualitative factors related to our indefinite-lived intangible asset to determine whether it is necessary to perform the first step of the two-step quantitative impairment test. If, based on this qualitative assessment, we were to believe we must proceed to Step 1, we would determine the fair value of our indefinite-lived intangible asset using generally accepted valuation techniques including the relief-from-royalty method. This method is a form of the income approach in which value is equated to a series of cash flows and discounted at a risk-adjusted rate. It is based on a hypothetical royalty, calculated as a percentage of forecasted revenue, that we would otherwise be willing to pay to use the asset, assuming it were not already owned. This approach includes assumptions related to pricing and volume, as well as a royalty rate a hypothetical third party would be willing to pay for use of the asset. When making our royalty rate assumption, we look to rates paid in arms-length licensing transactions for assets comparable to our asset.

We amortize the cost of intangible assets with finite useful lives over their respective estimated useful lives to their estimated residual value. As of December 31, 2015 , none of our finite useful lived intangible assets has an estimated residual value. We also review these assets for impairment whenever events or changes in circumstances indicate we may not be able to recover the asset's carrying amount.

The range of estimated useful lives and the amortization basis for our intangible assets, excluding goodwill, are generally as follows:

| | **Estimated Useful Life and Amortization Basis** |
|---|---|
| Certificates of need | 10 to 30 years using straight-line basis |
| Licenses | 10 to 20 years using straight-line basis |
| Noncompete agreements | 1 to 18 years using straight-line basis |
| Trade names: | |
| Encompass | indefinite-lived asset |
| All other | 1 to 20 years using straight-line basis |
| Internal-use software | 3 to 7 years using straight-line basis |
| Market access assets | 20 years using accelerated basis |

We capitalize the costs of obtaining or developing internal-use software, including external direct costs of material and services and directly related payroll costs. Amortization begins when the internal-use software is ready for its intended use. Costs incurred during the preliminary project and post-implementation stages, as well as maintenance and training costs, are expensed as incurred.

Our market access assets are valued using discounted cash flows under the income approach. The value of the market access assets is attributable to our ability to gain access to and penetrate an acquired facility's historical market patient base. To determine this value, we first develop a debt-free net cash flow forecast under various patient volume scenarios. The debt-free net cash flow is then discounted back to present value using a discount factor, which includes an adjustment for company-specific risk. As noted in the above table, we amortize these assets over 20 years using an accelerated basis that reflects the pattern in which we believe the economic benefits of the market access will be consumed.

*Impairment of Long-Lived Assets and Other Intangible Assets—*

We assess the recoverability of long-lived assets (excluding goodwill and our indefinite-lived asset) and identifiable acquired intangible assets with finite useful lives, whenever events or changes in circumstances indicate we may not be able to recover the asset's carrying amount. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of the asset to the expected net future cash flows to be generated by that asset, or, for identifiable intangibles with finite useful lives, by determining whether the amortization of the intangible asset balance over its remaining life can be recovered through undiscounted future cash flows. The amount of impairment of identifiable intangible assets with finite useful lives, if any, to be recognized is measured based on projected discounted future cash flows. We measure the amount of impairment of other long-lived assets (excluding goodwill) as the amount by which the carrying value of the asset exceeds the fair market value of the asset, which is generally determined based on projected discounted future cash flows or appraised values. We classify long-lived assets to be disposed of other than by sale as held and used until they are disposed. We report long-lived assets to be disposed of by sale as held for sale and recognize those assets in the balance sheet at the lower of carrying amount or fair value less cost to sell, and we cease depreciation.

*Investments in and Advances to Nonconsolidated Affiliates—*

Investments in entities we do not control but in which we have the ability to exercise significant influence over the operating and financial policies of the investee are accounted for under the equity method. Equity method investments are recorded at original cost and adjusted periodically to recognize our proportionate share of the investees' net income or losses after the date of investment, additional contributions made, dividends or distributions received, and impairment losses resulting from adjustments to net realizable value. We record equity method losses in excess of the carrying amount of an investment when we guarantee obligations or we are otherwise committed to provide further financial support to the affiliate.

We use the cost method to account for equity investments for which the equity securities do not have readily determinable fair values and for which we do not have the ability to exercise significant influence. Under the cost method of accounting, private equity investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, additional investments, or distributions deemed to be a return of capital.

Management periodically assesses the recoverability of our equity method and cost method investments and equity method goodwill for impairment. We consider all available information, including the recoverability of the investment, the earnings and near-term prospects of the affiliate, factors related to the industry, conditions of the affiliate, and our ability, if any, to influence the management of the affiliate. We assess fair value based on valuation methodologies, as appropriate, including discounted cash flows, estimates of sales proceeds, and external appraisals, as appropriate. If an investment or equity method goodwill is considered to be impaired and the decline in value is other than temporary, we record an appropriate write-down.

*Financing Costs—*

We amortize financing costs using the effective interest method over the expected life of the related debt. Excluding financing costs related to our revolving line of credit (which is included in *Other long-term assets* ), financing costs are presented as a direct deduction from the face amount of the financings. The related expense is included in *Interest expense and amortization of debt discounts and fees* in our consolidated statements of operations. See the *Recent Accounting Pronouncements* section of this note.

We accrete discounts and amortize premiums using the effective interest method over the expected life of the related debt, and we report discounts or premiums as a direct deduction from, or addition to, the face amount of the financing. The related income or expense is included in *Interest expense and amortization of debt discounts and fees* in our consolidated statements of operations.

*Fair Value Measurements*—

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions market participants would use in pricing an asset or liability.

The basis for these assumptions establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Observable inputs such as quoted prices in active markets;
- *Level 2* – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3* – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future cash flows to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Our financial instruments consist mainly of cash and cash equivalents, restricted cash, restricted marketable securities, accounts receivable, accounts payable, letters of credit, and long-term debt. The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate fair value because of the short-term maturity of these instruments. The fair value of our letters of credit is deemed to be the amount of payment guaranteed on our behalf by third-party financial institutions. We determine the fair value of our long-term debt using quoted market prices, when available, or discounted cash flows based on various factors, including maturity schedules, call features, and current market rates.

On a recurring basis, we are required to measure our available-for-sale restricted marketable securities at fair value. The fair values of our available-for-sale restricted marketable securities are determined based on quoted market prices in active markets or quoted prices, dealer quotations, or alternative pricing sources supported by observable inputs in markets that are not considered to be active.

On a nonrecurring basis, we are required to measure property and equipment, goodwill, other intangible assets, investments in nonconsolidated affiliates, and assets and liabilities of discontinued operations at fair value. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. The fair value of our property and equipment is determined using discounted cash flows and significant unobservable inputs, unless there is an offer to purchase such assets, which could be the basis for determining fair value. The fair value of our intangible assets, excluding goodwill, is determined using discounted cash flows and significant unobservable inputs. The fair value of our investments in nonconsolidated affiliates is determined using quoted prices in private markets, discounted cash flows or earnings, or market multiples derived from a set of comparables. The fair value of our assets and liabilities of discontinued operations is determined using discounted cash flows and significant unobservable inputs unless there is an offer to purchase such assets and liabilities, which would be the basis for determining fair value. The fair value of our goodwill is determined using discounted projected operating results and cash flows, which involve significant unobservable inputs.

See also the “Redeemable Noncontrolling Interests” section of this note.

*Noncontrolling Interests in Consolidated Affiliates—*

The consolidated financial statements include all assets, liabilities, revenues, and expenses of less-than-100%-owned affiliates we control. Accordingly, we have recorded noncontrolling interests in the earnings and equity of such entities. We record adjustments to noncontrolling interests for the allocable portion of income or loss to which the noncontrolling interests holders are entitled based upon their portion of the subsidiaries they own. Distributions to holders of noncontrolling interests are adjusted to the respective noncontrolling interests holders' balance.

*Convertible Perpetual Preferred Stock—*

Our *Convertible perpetual preferred stock* contained fundamental change provisions that allowed the holder to require us to redeem the preferred stock for cash if certain events occurred. As redemption under these provisions was not solely within our control, we classified our *Convertible perpetual preferred stock* as temporary equity.

*Redeemable Noncontrolling Interests—*

Certain of our joint venture agreements contain provisions that allow our partners to require us to purchase their interests in the joint venture at fair value at certain points in the future. Likewise, and as discussed in Note 2, *Business Combinations* , certain members of Encompass management hold similar put rights regarding their interests in our home health and hospice business. Because these noncontrolling interests provide for redemption features that are not solely within our control, we classify them as *Redeemable noncontrolling interests* outside of permanent equity in our consolidated balance sheets. At the end of each reporting period, we compare the carrying value of the *Redeemable noncontrolling interests* to their estimated redemption value. If the estimated redemption value is greater than the current carrying value, the carrying value is adjusted to the estimated redemption value, with the adjustments recorded through equity in the line item *Capital in excess of par value* .

The fair value of the *Redeemable noncontrolling interests* related to our home health segment is determined using the product of a twelve-month specified performance measure and a specified median market price multiple based on a basket of public health companies. The fair value of our *Redeemable noncontrolling interests* in our joint venture hospitals is determined primarily using the income approach. The income approach includes the use of the hospital's projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the applicable hospitals, or *Level 3* inputs. The projected operating results use management's best estimates of economic and market conditions over the forecasted periods including assumptions for pricing and volume, operating expenses, and capital expenditures.

*Share-Based Payments—*

HealthSouth has shareholder-approved stock-based compensation plans that provide for the granting of stock-based compensation to certain employees and directors. All share-based payments to employees, excluding stock appreciation rights ("SARs"), are recognized in the financial statements based on their estimated grant-date fair value and amortized on a straight-line basis over the applicable requisite service period. Share-based payments to employees in the form of SARs are recognized in the financial statements based on their current fair value and expensed ratably over the applicable service period.

*Litigation Reserves—*

We accrue for loss contingencies associated with outstanding litigation for which management has determined it is probable a loss contingency exists and the amount of loss can be reasonably estimated. If the accrued amount associated with a loss contingency is greater than $5.0 million , we also accrue estimated future legal fees associated with the loss contingency. This requires management to estimate the amount of legal fees that will be incurred in the defense of the litigation. These estimates are based on our expectations of the scope, length to complete, and complexity of the claims. In the future, additional adjustments may be recorded as the scope, length, or complexity of outstanding litigation changes.

*Advertising Costs—*

We expense costs of print, radio, television, and other advertisements as incurred. Advertising expenses, primarily included in *Other operating expenses* within the accompanying consolidated statements of operations, were $7.3 million , $5.3 million , and $5.2 million in each of the years ended December 31, 2015 , 2014 , and 2013 , respectively.

*Professional Fees—Accounting, Tax, and Legal—*

In 2015 , 2014 , and 2013 *, Professional fees—accounting, tax, and legal* related primarily to legal and consulting fees for continued litigation and support matters discussed in Note 17, *Contingencies and Other Commitments* .

*Income Taxes—*

We provide for income taxes using the asset and liability method . This approach recognizes the amount of income taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the consolidated financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates.

A valuation allowance is required when it is more likely than not some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income in the applicable tax jurisdiction. On a quarterly basis, we assess the likelihood of realization of our deferred tax assets considering all available evidence, both positive and negative. Our most recent operating performance, the scheduled reversal of temporary differences, our forecast of taxable income in future periods by jurisdiction, our ability to sustain a core level of earnings, and the availability of prudent tax planning strategies are important considerations in our assessment.

We evaluate our tax positions and establish assets and liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly.

We use the with-and-without method to determine when we will recognize excess tax benefits from stock-based compensation. Under this method, we recognize these excess tax benefits only after we fully realize the tax benefits of net operating losses.

HealthSouth and its corporate subsidiaries file a consolidated federal income tax return. Some subsidiaries consolidated for financial reporting purposes are not part of the consolidated group for federal income tax purposes and file separate federal income tax returns. State income tax returns are filed on a separate, combined, or consolidated basis in accordance with relevant state laws and regulations. Partnerships, limited liability companies, and other pass-through entities we consolidate or account for using the equity method of accounting file separate federal and state income tax returns. We include the allocable portion of each pass-through entity's income or loss in our federal income tax return. We allocate the remaining income or loss of each pass-through entity to the other partners or members who are responsible for their portion of the taxes.

*Assets and Liabilities in and Results of Discontinued Operations—*

Effective January 1, 2015, in connection with a new standard issued by the FASB, we changed our criteria for determining which disposals are presented as discontinued operations. Historically, any component that had been disposed of or was classified as held for sale qualified for discontinued operations reporting unless there was significant continuing involvement with the disposed component or continuing cash flows. In contrast, we now report the disposal of the component, or group of components, as discontinued operations only when it represents a strategic shift that has, or will have, a major effect on our operations and financial results. As a result, the sale or disposal of a single HealthSouth facility no longer qualifies as a discontinued operation. This accounting change was made prospectively. No new components were recognized as discontinued operations during 2015.

In the period a component of an entity has been disposed of or classified as held for sale, we reclassify the results of operations for current and prior periods into a single caption titled *(Loss) income from discontinued operations, net of tax* . In addition, we classify the assets and liabilities of those components as current and noncurrent assets and liabilities within *Prepaid expenses and other current assets* , *Other long-term assets* , *Other current liabilities* , and *Other long-term liabilities* in our consolidated balance sheets. We also classify cash flows related to discontinued operations as one line item within each category of cash flows in our consolidated statements of cash flows.

*Earnings per Common Share—*

The calculation of earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings per common share recognizes the effect of all potential dilutive common shares, including warrants, that were outstanding during the respective periods, unless their impact would be antidilutive. The calculation of earnings per common share also considers the effect of participating securities. Stock-based compensation awards that contain nonforfeitable rights to dividends and dividend equivalents, such as our nonvested restricted stock awards granted before 2014 and restricted stock units, are considered participating securities and are included in the computation of earnings per common share pursuant to the two-class method. In applying the two-class method, earnings are allocated to both common stock shares and participating securities based on their respective weighted-average shares outstanding for the period.

We use the if-converted method to include our *Convertible perpetual preferred stock* and convertible senior subordinated notes in our computation of diluted earnings per share. All other potential dilutive shares, including warrants, are included in our weighted-average diluted share count using the treasury stock method.

*Treasury Stock—*

Shares of common stock repurchased by us are recorded at cost as treasury stock. When shares are reissued, we use an average cost method to determine cost. The difference between the cost of the shares and the re-issuance price is added to or deducted from *Capital in excess of par value* . We account for the retirement of treasury stock as a reduction of retained earnings. However, due to our *Accumulated deficit* , the retirement of treasury stock is currently recorded as a reduction of *Capital in excess of par value* .

*Comprehensive Income—*

*Comprehensive income* is comprised of *Net income* and changes in unrealized gains or losses on available-for-sale securities and is included in the consolidated statements of comprehensive income.

*Recent Accounting Pronouncements —*

In May 2014, the FASB updated its revenue recognition standard to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, the updated standard revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This revised standard will be effective for HealthSouth for the annual reporting period beginning on January 1, 2017, including interim periods within that year. Early adoption is not permitted. We continue to review the requirements of this revised standard and any potential impact it may have on our financial position, results of operations, or cash flows. It will require us to reclassify our *Provision for doubtful accounts* from a component of *Net operating revenues* to operating expenses.

In February 2015, the FASB issued ASU 2015-02, “Consolidations (Topic 810) - Amendments to the Consolidation Analysis,” which provides guidance on evaluating whether a reporting entity should consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIE”). Under this analysis, limited partnerships and other similar entities will be considered a VIE unless the limited partners hold substantive kick-out rights or participating rights. Further, the amendments eliminate the presumption that a general partner should consolidate a limited partnership under the voting interest model, as well as affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. This standard is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early adoption is permitted, and the reporting entity may apply the amendments using a modified retrospective approach or a full retrospective application. We do not expect the adoption of this authoritative guidance in 2016 to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The new guidance requires that debt issuance costs related to a recognized debt liability be presented on the consolidated balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. For public companies, the new guidance is effective for fiscal years beginning after December 15, 2015 and

interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued and the new guidance should be applied on a retrospective basis. We elected to early adopt this new guidance effective as of December 31, 2015 and have applied these changes retrospectively to all periods presented. The adoption of this guidance did not have material effect on our consolidated financial position, results of operations, or cash flows. See Note 8, *Long-Term Debt* , and Note 12, *Fair Value Measurements.*

In July 2015, the FASB updated its revenue recognition standard to defer its effective date by one year. The FASB decided, based on its outreach to various stakeholders and the forthcoming amendments to the new revenue standard, that a deferral is necessary to provide adequate time to effectively implement the new revenue standard. This revised standard will be effective for our annual reporting period beginning on January 1, 2018, including interim periods within that year. Early adoption is permitted but not earlier than the original effective date.

In August 2015, the FASB issued ASU No. 2015-15, "Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," to provide authoritative guidance related to line-of-credit arrangements, which were not addressed in ASU No. 2015-03. An entity may defer and present debt issuance costs related to line-of-credit arrangements as an asset. We elected to early adopt this new guidance effective as of December 31, 2015 and have applied these changes retrospectively to all periods presented. The adoption of this guidance did not have a material effect on our consolidated financial position, results of operations, or cash flows. See Note 8, *Long-Term Debt* , and Note 12, *Fair Value Measurements.*

In September 2015, the FASB issued ASU 2015-16 "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." This standard eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. The new standard requires an acquirer to recognize measurement-period adjustments during the period in which it determines the amount of the adjustment. In addition, it requires the acquirer to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts as if the accounting had been completed at the acquisition date. This standard is effective prospectively for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early application is permitted. We do not expect the adoption of this authoritative guidance in 2016 to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," to simplify the presentation of deferred taxes in the consolidated balance sheet. Under this amendment, entities will no longer be required to separate deferred income tax liabilities and assets into current and noncurrent amounts. Rather, the amendment requires deferred tax liabilities and assets be classified as noncurrent in a consolidated balance sheet. For public companies, the revised standard is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted with retrospective application optional. We elected to early adopt this new guidance effective as of December 31, 2015. Prior periods were not retrospectively adjusted for this change in accounting principle. The adoption of this guidance did not have material effect on our consolidated financial position, results of operations, or cash flows. See Note 15, *Income Taxes.*

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities." This standard revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. This revised standard requires the change in fair value of many equity investments to be recognized in net income. This revised standard is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. We continue to review the requirements of this revised standard and any potential impact it may have on our financial position, results of operations, or cash flows.

We do not believe any other recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations, or cash flows.

**2. Business Combinations :**

*2015 Acquisitions*

Inpatient Rehabilitation

*Reliant Acquisition*

In October 2015, we completed the previously announced acquisition of the operations of Reliant Hospital Partners, LLC and affiliated entities ("Reliant"). Reliant operates a portfolio of 11 inpatient rehabilitation hospitals in Texas, Massachusetts, and Ohio with a total of 902 beds. All of the Reliant hospitals are leased, and seven of the leases are treated as capital leases for accounting purposes. We assumed all of these lease obligations. The amount of the capital lease obligation initially recognized on our balance sheet was approximately $210 million . At closing, one Reliant hospital entity had a remaining minority limited partner interest of 0.5%. The cash purchase price was reduced by the estimated fair value of this interest. We funded the cash purchase price in the acquisition with proceeds from our August and September 2015 senior notes issuances and borrowings under our senior secured credit facility. See Note 8, *Long-term Debt* .

With this acquisition, we are able to offer comprehensive, high-quality and cost-effective facility-based care across new and existing service areas. We expect approximately 86% of the goodwill resulting from this transaction to be deductible for federal income tax purposes. The goodwill reflects our expectations of our ability to gain access to and penetrate each acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets.

We accounted for this transaction under the acquisition method of accounting and reported the results of operations of Reliant from its date of acquisition. Assets acquired, liabilities assumed, and noncontrolling interests were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: replacement cost and continued use methods for property and equipment; an income approach using primarily discounted cash flow techniques for the noncompete and license intangible assets and capital lease liabilities; an income approach utilizing the relief-from-royalty method for the trade name intangible assets; an income approach utilizing the excess earnings method for the certificate of need intangible assets; and an estimated realizable value approach using historical trends and other relevant information for accounts receivable and certain accrued liabilities. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted average cost of capital that reflects market participant assumptions. For all other assets and liabilities, the fair value was assumed to represent carrying value due to their short maturities. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill.

The fair values recorded were based upon a preliminary valuation. Estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of amounts for income taxes, adjustments to working capital, and the final amount of residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired at the acquisition date during the measurement period.

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

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 42.6 |
| Accounts receivable | | 25.7 |
| Prepaid expenses and other current assets | | 2.8 |
| Property and equipment | | 220.6 |
| Identifiable intangible assets: | | |
| Noncompete agreements (useful lives of 1 to 2 years) | | 9.7 |
| Trade names (useful lives of 20 years) | | 8.9 |
| Certificates of need (useful lives of 20 years) | | 36.6 |
| Licenses (useful lives of 20 years) | | 11.4 |
| Goodwill | | 642.6 |
| Other long-term assets | | 0.9 |
| Total assets acquired | | 1,001.8 |
| Liabilities assumed: | | |
| Current portion of long-term debt | | 4.1 |
| Accounts payable | | 1.7 |
| Accrued payroll | | 3.7 |
| Other current liabilities | | 10.8 |
| Long-term debt, net of current portion | | 205.8 |
| Deferred tax liabilities | | 3.9 |
| Total liabilities assumed | | 230.0 |
| Noncontrolling interests | | 0.4 |
| Net assets acquired | $ | 771.4 |

Information regarding the net cash paid for the acquisition of Reliant is as follows (in millions):

| | | |
|---|---|---|
| Fair value of assets acquired, net of $42.6 million of cash acquired | $ | 316.6 |
| Goodwill | | 642.6 |
| Fair value of liabilities assumed | | (230.0) |
| Noncontrolling interests | | (0.4) |
| Net cash paid for acquisition | $ | 728.8 |

*Other Inpatient Rehabilitation Acquisitions*

In April 2015, we acquired 83% of the inpatient rehabilitation hospital at Memorial University Medical Center (“Memorial”), a 50 -bed inpatient rehabilitation hospital in Savannah, Georgia, through a joint venture with Memorial Health. The joint venture, which was funded using cash on hand, was not material to our financial position, results of operations, or cash flows. The Memorial transaction was made to enhance our position and ability to provide inpatient rehabilitative services to patients in Savannah and its surrounding areas. As a result of this transaction, Goodwill increased by $0.7 million , none of which is deductible for federal income tax purposes.

In May 2015, we acquired Cardinal Hill Rehabilitation Hospital (“Cardinal Hill”), comprised of 158 licensed inpatient rehabilitation beds, 74 licensed skilled nursing beds, and one home health location, in Lexington, Kentucky. This acquisition was made to enhance our position and ability to provide inpatient rehabilitative and home health services to patients in

Lexington, Kentucky and its surrounding areas. The acquisition, which was funded using availability under our revolving credit facility, was not material to our financial position, results of operations, or cash flows. Goodwill did not increase as a result of this transaction.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from their respective dates of acquisition. Assets acquired, liabilities assumed, and noncontrolling interests, if any, were recorded at their estimated fair values as of the respective acquisition dates. The fair values of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach, which was also used to estimate the fair value of any noncontrolling interest, is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired, if any, was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired or consolidated hospitals' historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets.

The fair value of the assets acquired and liabilities assumed at the acquisition dates for the other inpatient rehabilitation transactions completed in 2015 were as follows (in millions):

| | | |
|---|---|---|
| Total current assets | $ | 10.1 |
| Property and equipment | | 42.7 |
| Identifiable intangible assets: | | |
| Noncompete agreements (useful lives of 2 to 3 years) | | 0.1 |
| Trade names (useful lives of 20 years) | | 0.8 |
| Certificates of need (useful lives of 20 years) | | 8.8 |
| Licenses (useful lives of 20 years) | | 0.2 |
| Goodwill | | 0.7 |
| Total assets acquired | | 63.4 |
| Total liabilities assumed | | (2.7) |
| Net assets acquired | $ | 60.7 |

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

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| Fair value of assets acquired | $ | 62.8 | $ | 60.1 | $ | 15.6 |
| Goodwill | | 0.7 | | 34.6 | | 13.7 |
| Fair value of liabilities assumed | | (2.7) | | (21.2) | | (0.4) |
| Fair value of noncontrolling interest owned by joint venture partner | | (4.2) | | (18.3) | | — |
| Fair value of equity interest prior to acquisition | | — | | (35.0) | | — |
| Net cash paid for acquisitions | $ | 56.6 | $ | 20.2 | $ | 28.9 |

See also Note 7, *Investments in and Advances to Nonconsolidated Affiliates* .

Home Health and Hospice

*CareSouth Acquisition*

In November 2015, Encompass, a subsidiary of HealthSouth, completed its previously announced acquisition of the home health agency operations of CareSouth Health System, Inc. ("CareSouth"). CareSouth operates a portfolio of 44 home health agencies and 3 hospice agencies in Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, and Virginia. In addition, two of these home health agencies operate as joint ventures which we account for using the equity method of accounting. We funded the cash purchase price in the acquisition with our term loan facility capacity and cash on hand. See Note 8, *Long-term Debt* .

With this acquisition, we are able to offer comprehensive, high-quality and cost-effective home-based care across new and existing service areas. We expect approximately 6.5% of the goodwill resulting from this transaction to be deductible for federal income tax purposes. The goodwill reflects our expectations of favorable growth opportunities in the home health and hospice markets based on positive demographic trends.

We accounted for this transaction under the acquisition method of accounting and reported the results of operations of CareSouth from its date of acquisition. Assets acquired, liabilities assumed, and noncontrolling interests were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: replacement cost and continued use methods for property and equipment; an income approach using primarily discounted cash flow techniques for the noncompete and license intangible assets and capital lease liabilities; an income approach utilizing the relief-from-royalty method for the trade name intangible asset; an income approach utilizing the excess earnings method for the certificate of need intangible assets; and an estimated realizable value approach using historical trends and other relevant information for accounts receivable and certain accrued liabilities. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted average cost of capital that reflects market participant assumptions. For all other assets and liabilities, the fair value was assumed to represent carrying value due to their short maturities. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill.

The fair values recorded were based upon a preliminary valuation. Estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of amounts for income taxes, adjustments to working capital, and the final amount of residual goodwill. We expect to continue to obtain information to assist us in determining the fair values of the net assets acquired at the acquisition date during the measurement period.

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

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 0.4 |
| Accounts receivable | | 10.5 |
| Prepaid expenses and other current assets | | 2.4 |
| Property and equipment | | 0.7 |
| Identifiable intangible assets: | | |
| Noncompete agreements (useful lives of 3 years) | | 0.8 |
| Trade name (useful life of 5 years) | | 2.8 |
| Certificates of need (useful lives of 10 years) | | 15.6 |
| Licenses (useful lives of 10 years) | | 13.0 |
| Internal use software | | 0.4 |
| Goodwill | | 142.5 |
| Investment in nonconsolidated subsidiaries | | 2.2 |
| Total assets acquired | | 191.3 |
| Liabilities assumed: | | |
| Current portion of long-term debt | | 0.1 |
| Accounts payable | | 2.4 |
| Accrued payroll | | 2.4 |
| Other current liabilities | | 2.8 |
| Long-term debt, net of current portion | | 0.2 |
| Deferred tax liabilties | | 9.4 |
| Total liabilities assumed | | 17.3 |
| Noncontrolling interests | | 4.3 |
| Net assets acquired | $ | 169.7 |

Information regarding the net cash paid for the acquisition of CareSouth is as follows (in millions):

| | | |
|---|---|---|
| Fair value of assets acquired, net of $0.4 million of cash acquired | $ | 48.4 |
| Goodwill | | 142.5 |
| Fair value of liabilities assumed | | (17.3) |
| Fair value of noncontrolling interest owned by joint venture partner | | (4.3) |
| Net cash paid for acquisitions | $ | 169.3 |

*Other Home Health and Hospice Acquisitions*

Other than the CareSouth acquisition discussed above, we completed the following home health and hospice acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in the applicable geographic areas. Each acquisition was funded with cash on hand.

- In March 2015, we acquired Integrity Home Health Care, Inc. (“Integrity”), a home health company with two locations in the Las Vegas, Nevada area.

- In April 2015, we acquired Harvey Home Health Services, Inc. (“Harvey”), a home health company in Houston, Texas.
- In May 2015, we acquired Heritage Home Health Care, LLC (“Heritage”), a home health company in Texarkana, Arkansas.
- In June 2015, we acquired Washington County Home Health Care, Inc. and Benton County Home Health, Inc., doing business as Alliance Home Health (“Alliance”), a home health company with two locations in the Fayetteville, Arkansas area.
- In July 2015, we acquired Southern Utah Home Health, Inc. (“Southern Utah”), a home health and hospice company with two home health locations and two hospice locations in southern Utah.
- In July 2015, we acquired Orthopedic Rehab Specialist, LLC (“ORS”), a home health company in Ocala, Florida.

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

The fair value of the assets acquired and liabilities assumed at the acquisition dates for the other home health and hospice transactions completed in 2015 were as follows (in millions):

| | |
|---|---|
| Property and equipment | $ 0.1 |
| Identifiable intangible assets: | |
| Noncompete agreements (useful lives of 2 to 5 years) | 1.3 |
| Trade names (useful lives of 1 year) | 0.5 |
| Certificates of need (useful lives of 10 years) | 4.9 |
| Licenses (useful lives of 10 years) | 3.6 |
| Goodwill | 20.3 |
| Total assets acquired | 30.7 |
| Total liabilities assumed | (0.2) |
| Net assets acquired | $ 30.5 |

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Fair value of assets acquired | $ 10.4 | $ — | $ — |
| Goodwill | 20.3 | — | — |
| Fair value of liabilities assumed | (0.2) | — | — |
| Net cash paid for acquisitions | $ 30.5 | $ — | $ — |

*2015 Pro Forma Results of Operations*

The following table summarizes the results of operations of the above mentioned transactions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2014 (in millions):

| | Net Operating Revenues | Net Income Attributable to HealthSouth |
|---|---|---|
| Acquired entities only: Actual from acquisition date to December 31, 2015:* | | |
| Reliant | $ 63.7 | $ 11.2 |
| All Other Inpatient | 54.7 | 1.7 |
| CareSouth | 19.2 | 2.5 |
| All Other Home Health and Hospice | 17.8 | 1.2 |
| Combined entity: Supplemental pro forma from 1/01/2015-12/31/2015 (unaudited) | 3,479.9 | 234.0 |
| Combined entity: Supplemental pro forma from 1/01/2014-12/31/2014 (unaudited) | 2,851.0 | 276.9 |

* Savannah - includes operating results from April 1, 2015 through December 31, 2015
Cardinal Hill - includes operating results from May 1, 2015 through December 31, 2015
Integrity - includes operating results from March 3, 2015 through December 31, 2015
Harvey - includes operating results from April 15, 2015 through December 31, 2015
Heritage - includes operating results from May 1, 2015 through December 31, 2015
Alliance - includes operating results from June 4, 2015 through December 31, 2015
Southern Utah - includes operating results from July 1, 2015 through December 31, 2015
ORS - includes operating results from July 13, 2015 through December 31, 2015
Reliant - includes operating results from October 1, 2015 through December 31, 2015
CareSouth - includes operating results from November 2, 2015 through December 31, 2015

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2014 reporting period. For the Reliant and CareSouth acquisitions, the unaudited pro forma information above includes adjustments for: (1) acquisition costs; (2) amortization of incremental identifiable intangible assets; (3) management fees paid to their former equity holders; (4) interest on debt incurred to fund the acquisitions (see Note 8 , *Long-term Debt* ); (5) income taxes using a rate of 40%; and (6) noncontrolling interests.

*2014 and 2013 Acquisitions*

Encompass Acquisition

On December 31, 2014, we completed the acquisition of EHHI and its Encompass Home Health and Hospice business. On the acquisition date, Encompass provided home health and hospice services out of 135 locations across 12 states. In the acquisition, we acquired all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to HealthSouth Home Health Holdings, Inc. (“Holdings”), a subsidiary of HealthSouth and now indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. These certain sellers, who are members of Encompass management, including April Anthony, the Chief Executive Officer of Encompass, contributed a portion of their shares of common stock of EHHI, valued at approximately $64.5 million , in exchange for shares of common stock of Holdings. As a result of that contribution, they hold approximately 16.7% of the outstanding common stock of Holdings, while HealthSouth owns the remainder. In addition, Ms. Anthony and certain other employees of Encompass entered into amended and restated employment agreements, each agreement having an initial term of three years. We funded the cash purchase price in the acquisition entirely with draws under the revolving and expanded term loan facilities of our credit agreement. See Note 8, *Long-term Debt* .

This acquisition was made to enhance our position and expand our ability to provide post-acute healthcare services to patients. Approximately 23% of the goodwill resulting from this transaction is deductible for federal income tax purposes. The goodwill reflects our expectations of favorable growth opportunities in the home health and hospice markets based on positive demographic trends.

We accounted for this transaction under the acquisition method of accounting. Because the acquisition took place on December 31, 2014, our consolidated results of operations for the year ended December 31, 2014 do not include any results of operations from Encompass. Assets acquired, liabilities assumed, and redeemable noncontrolling interests were recorded at their estimated fair values as of the acquisition date. Fair values were based on various valuation methodologies including: replacement cost and continued use methods for property and equipment; an income approach using primarily discounted cash flow techniques for amortizable intangible assets; an income approach utilizing the relief-from-royalty method for the indefinite-lived intangible asset; and an estimated realizable value approach using historical trends and other relevant information for accounts receivable and certain accrued liabilities. For all other assets and liabilities, the fair value was assumed to represent carrying value due to their short maturities. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill.

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

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 20.9 |
| Accounts receivable | | 37.6 |
| Prepaid expenses and other current assets | | 8.6 |
| Property and equipment | | 9.6 |
| Identifiable intangible assets: | | |
| Noncompete agreements (useful life of 2 to 5 years) | | 5.6 |
| Trade name (indefinite life) | | 135.2 |
| Licenses (useful life of 10 years) | | 58.2 |
| Internal-use software (useful life of 3 years) | | 3.2 |
| Goodwill | | 592.5 |
| Other long-term assets | | 2.1 |
| Total assets acquired | | 873.5 |
| Current portion of long-term debt | | 2.0 |
| Accounts payable | | 0.9 |
| Accrued payroll | | 25.8 |
| Other current liabilities | | 18.5 |
| Long-term debt, net of current portion | | 2.0 |
| Deferred tax liabilities | | 64.3 |
| Total liabilities assumed | | 113.5 |
| Redeemable noncontrolling interests | | 64.5 |
| Net assets acquired | $ | 695.5 |

Information regarding the net cash paid for the acquisition of Encompass is as follows (in millions):

| | | |
|---|---|---|
| Fair value of assets acquired, net of $20.9 million of cash acquired | $ | 260.1 |
| Goodwill | | 592.5 |
| Fair value of liabilities assumed | | (113.5) |
| Redeemable noncontrolling interests | | (64.5) |
| Net cash paid for acquisition | $ | 674.6 |

See also Note 11, *Redeemable Noncontrolling Interests* .

Other Acquisitions

In June 2014, using cash on hand, we acquired an additional 30% equity interest from UMass Memorial Health Care, our joint venture partner in Fairlawn Rehabilitation Hospital ("Fairlawn") in Worcester, Massachusetts. This transaction increased our ownership interest from 50% to 80% and resulted in a change in accounting for this hospital from the equity method of accounting to a consolidated entity. As a result of our consolidation of this hospital and the remeasurement of our previously held equity interest at fair value, *Goodwill* increased by $34.0 million , and we recorded a $27.2 million gain as part of *Other income* during 2014. The Fairlawn transaction was made to increase our ownership in a profitable hospital and continue to grow our core business by consolidating its operations. None of the goodwill resulting from this transaction is deductible for federal income tax purposes. See also Note 15, *Income Taxes* .

In November 2014, we acquired 50.1% of the James H. & Cecile C. Quillen Rehabilitation Hospital ("Quillen"), a 26 -bed inpatient rehabilitation hospital in Johnson City, Tennessee, through a joint venture with Mountain States Health Alliance. The joint venture, which was funded using cash on hand, was not material to our financial position, results of operations, or cash flows. The Quillen transaction was made to enhance our position and ability to provide inpatient rehabilitative services to patients in Johnson City and its surrounding areas. As a result of this transaction, *Goodwill* increased by $0.6 million , none of which is deductible for federal income tax purposes. The noncontrolling interest associated with this agreement includes redemption features that are not solely within our control and, therefore, is considered *Redeemable noncontrolling interests.* See Note 11, *Redeemable Noncontrolling Interests* .

In April 2013, we closed the transaction to acquire Walton Rehabilitation Hospital, a 58 -bed inpatient rehabilitation hospital in Augusta, Georgia. This acquisition was made to enhance our position and ability to provide inpatient rehabilitative services to patients in Augusta, Georgia and its surrounding areas. The acquisition, which was funded using availability under our revolving credit facility, was not material to our financial position, results of operations, or cash flows. As a result of this transaction, *Goodwill* increased by $13.7 million , all of which is deductible for federal income tax purposes.

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

The fair value of the assets acquired and liabilities assumed at the acquisition dates for the other acquisitions completed in 2014 were as follows (in millions):

| | |
|---|---|
| Total current assets | $ 12.1 |
| Property and equipment, net | 36.9 |
| Identifiable intangible assets: | |
| Noncompete agreements (useful lives of 2 to 3 years) | 0.4 |
| Trade names (useful lives of 20 years) | 2.9 |
| Certificates of need (useful lives of 20 years) | 10.8 |
| Licenses (useful lives of 20 years) | 2.1 |
| Goodwill | 34.6 |
| Total assets acquired | 99.8 |
| Total current liabilities assumed | (7.8) |
| Total long-term liabilities assumed | (13.4) |
| Net assets acquired | $ 78.6 |

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

| | For the Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Fair value of assets acquired, net of $5.1 million of cash acquired in 2014 | $ 60.1 | $ 15.6 |
| Goodwill | 34.6 | 13.7 |
| Fair value of liabilities assumed | (21.2) | (0.4) |
| Fair value of noncontrolling interest owned by joint venture partner | (18.3) | — |
| Fair value of equity interest prior to acquisition | (35.0) | — |
| Net cash paid for acquisitions | $ 20.2 | $ 28.9 |

See also Note 7, *Investments in and Advances to Nonconsolidated Affiliates* .

*2014 Pro Forma Results of Operations*

The following table summarizes the results of operations of the above 2014 transactions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2013 (in millions):

| | Net Operating Revenues | Net Income Attributable to HealthSouth |
|---|---|---|
| Acquired entities only: Actual from acquisition date to December 31, 2014* | $ 27.2 | $ 4.0 |
| Combined entity: Supplemental pro forma from 1/01/2014-12/31/2014 (unaudited) | 2,799.8 | 237.5 |
| Combined entity: Supplemental pro forma from 1/01/2013-12/31/2013 (unaudited) | 2,627.6 | 311.3 |

* Encompass - Actual amounts are zero due to the acquisition of Encompass on December 31, 2014.
Fairlawn - includes operating results from June 1, 2014 through December 31, 2014
Quillen - includes operating results from November 1, 2014 through December 31, 2014

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2013 reporting period. For the Encompass acquisition, the unaudited pro forma information above includes adjustments for: (1) acquisition costs; (2) amortization of incremental identifiable intangible assets; (3) management fees paid to Encompass' former equity holders; (4) interest on debt incurred to fund the acquisition (see Note 8, *Long-term Debt* ); (5) income taxes using a rate of 40%; and (6) noncontrolling interests.

## 3. Cash and Marketable Securities :

The components of our investments as of December 31, 2015 are as follows (in millions):

| | Cash & Cash Equivalents | Restricted Cash | Restricted Marketable Securities | Total |
|---|---|---|---|---|
| Cash | $ 61.6 | $ 45.9 | $ — | $ 107.5 |
| Equity securities | — | — | 56.2 | 56.2 |
| Total | $ 61.6 | $ 45.9 | $ 56.2 | $ 163.7 |

The components of our investments as of December 31, 2014 are as follows (in millions):

| | Cash & Cash Equivalents | Restricted Cash | Restricted Marketable Securities | Total |
|---|---|---|---|---|
| Cash | $ 66.7 | $ 45.6 | $ — | $ 112.3 |
| Equity securities | — | — | 50.5 | 50.5 |
| Total | $ 66.7 | $ 45.6 | $ 50.5 | $ 162.8 |

*Restricted Cash—*

As of December 31, 2015 and 2014 , *Restricted cash* consisted of the following (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Affiliate cash | $ 20.3 | $ 13.1 |
| Self-insured captive funds | 25.6 | 32.4 |
| Paid-loss deposit funds | — | 0.1 |
| Total restricted cash | $ 45.9 | $ 45.6 |

Affiliate cash represents cash accounts maintained by joint ventures in which we participate where one or more of our external partners requested, and we agreed, that the joint venture's cash not be commingled with other corporate cash accounts and be used only to fund the operations of those joint ventures. Self-insured captive funds represent cash held at our wholly owned insurance captive, HCS, Ltd., as discussed in Note 9, *Self-Insured Risks* . These funds are committed to pay third-party administrators for claims incurred and are restricted by insurance regulations and requirements. These funds cannot be used for purposes outside HCS without the permission of the Cayman Islands Monetary Authority. Paid-loss deposit funds represent cash held by third-party administrators to fund expenses and other payments related to claims.

The classification of restricted cash held by HCS as current or noncurrent depends on the classification of the corresponding claims liability. As of December 31, 2015 and 2014 , all restricted cash was current.

*Marketable Securities—*

Restricted marketable securities at both balance sheet dates represent restricted assets held at HCS. HCS insures HealthSouth’s professional liability, workers’ compensation, and other insurance claims. These funds are committed for payment of claims incurred, and the classification of these marketable securities as current or noncurrent depends on the classification of the corresponding claims liability. As of December 31, 2015 and 2014 , $40.1 million and $45.9 million , respectively, of restricted marketable securities are included in *Other long-term assets* in our consolidated balance sheets.

A summary of our restricted marketable securities as of December 31, 2015 is as follows (in millions):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Equity securities | $ 58.3 | $ 0.3 | $ (2.4) | $ 56.2 |

A summary of our restricted marketable securities as of December 31, 2014 is as follows (in millions):

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Equity securities | $ 51.3 | $ 0.5 | $ (1.3) | $ 50.5 |

Cost in the above tables includes adjustments made to the cost basis of our equity securities for other-than-temporary impairments. During the years ended December 31, 2015 , 2014 , and 2013 , we did not record any impairment charges related to our restricted marketable securities.

Investing information related to our restricted marketable securities is as follows (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Proceeds from sales of restricted available-for-sale securities | $ — | $ — | $ 16.6 |
| Proceeds from sales of nonrestricted available-for-sale securities | $ 12.8 | $ 2.7 | $ — |
| Gross realized gains | $ 1.2 | $ 0.5 | $ 1.0 |
| Gross realized losses | $ — | $ (0.1) | $ (0.1) |

Our portfolio of marketable securities is comprised of investments in mutual funds that hold investments in a variety of industries and geographies. As discussed in Note 1, *Summary of Significant Accounting Policies* , “Marketable Securities,” when our portfolio includes marketable securities with unrealized losses that are not deemed to be other-than-temporarily impaired, we examine the severity and duration of the impairments in relation to the cost of the individual investments. We also consider the industry and geography in which each investment is held and the near-term prospects for a recovery in each.

**4. Accounts Receivable :**

Accounts receivable consists of the following (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Current: | | |
| Patient accounts receivable, net of allowance for doubtful accounts of $39.3 million in 2015; $22.2 million in 2014 | $ 403.3 | $ 309.3 |
| Other accounts receivable | 7.2 | 13.9 |
| | **410.5** | **323.2** |
| Noncurrent patient accounts receivable, net of allowance for doubtful accounts of $32.3 million in 2015; $20.8 million in 2014 | 96.6 | 51.4 |
| **Accounts receivable, net** | **$ 507.1** | **$ 374.6** |

Because the resolution of claims that are part of Medicare audit programs can take in excess of three years, we review the patient receivables that are part of this adjudication process to determine their appropriate classification as either current or noncurrent. Amounts considered noncurrent are included in *Other long-term assets* in our consolidated balance sheet.

At December 31, 2015 and 2014 , our allowance for doubtful accounts represented approximately 12.5% and 10.7% , respectively, of the total patient due accounts receivable balance.

The following is the activity related to our allowance for doubtful accounts (in millions):

| For the Year Ended December 31, | Balance at Beginning of Period | Additions and Charges to Expense | Deductions and Accounts Written Off | Balance at End of Period |
|---|---|---|---|---|
| 2015 | $ 43.0 | $ 47.2 | $ (18.6) | $ 71.6 |
| 2014 | $ 33.1 | $ 31.6 | $ (21.7) | $ 43.0 |
| 2013 | $ 28.7 | $ 26.0 | $ (21.6) | $ 33.1 |

**5. Property and Equipment :**

Property and equipment consists of the following (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Land | $ 113.3 | $ 108.1 |
| Buildings | 1,521.1 | 1,214.4 |
| Leasehold improvements | 96.2 | 79.1 |
| Vehicles | 10.0 | 9.3 |
| Furniture, fixtures, and equipment | 392.7 | 364.2 |
| | 2,133.3 | 1,775.1 |
| Less: Accumulated depreciation and amortization | (874.3) | (784.0) |
| | 1,259.0 | 991.1 |
| Construction in progress | 51.1 | 28.6 |
| Property and equipment, net | $ 1,310.1 | $ 1,019.7 |

As of December 31, 2015 , approximately 75% of our consolidated *Property and equipment, net* held by HealthSouth Corporation and its guarantor subsidiaries was pledged to the lenders under our credit agreement. See Note 8, *Long-term Debt* , and Note 20, *Condensed Consolidating Financial Information* .

Information related to fully depreciated assets and assets under capital lease obligations is as follows (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Fully depreciated assets | $ 252.4 | $ 240.9 |
| Assets under capital lease obligations: | | |
| Buildings | $ 333.9 | $ 124.4 |
| Vehicles | 6.5 | 5.2 |
| Equipment | 0.3 | 0.2 |
| | 340.7 | 129.8 |
| Less: Accumulated amortization | (66.6) | (55.2) |
| Assets under capital lease obligations, net | $ 274.1 | $ 74.6 |

See also Note 2, *Business Combinations.*

The amount of depreciation expense, amortization expense relating to assets under capital lease obligations, interest capitalized, and rent expense under operating leases is as follows (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Depreciation expense | $ 91.0 | $ 79.9 | $ 67.9 |
| Amortization expense | $ 12.7 | $ 7.5 | $ 9.5 |
| Interest capitalized | $ 1.3 | $ 1.5 | $ 1.9 |
| Rent expense: | | | |
| Minimum rent payments | $ 48.8 | $ 37.3 | $ 40.3 |
| Contingent and other rents | 21.6 | 18.2 | 20.3 |
| Other | 3.8 | 3.9 | 4.2 |
| Total rent expense | $ 74.2 | $ 59.4 | $ 64.8 |

*Leases—*

We lease certain land, buildings, and equipment under noncancelable operating leases generally expiring at various dates through 2028 . We also lease certain buildings and equipment under capital leases generally expiring at various dates through 2037 . Operating leases generally have 3 - to 15 -year terms, with one or more renewal options, with terms to be negotiated at the time of renewal. Various facility leases include provisions for rent escalation to recognize increased operating costs or require us to pay certain maintenance and utility costs. Contingent rents are included in rent expense in the year incurred.

Some facilities are subleased to other parties. Rental income from subleases approximated $5.0 million , $5.1 million , and $4.9 million for the years ended December 31, 2015 , 2014 , and 2013 , respectively. Total expected future minimum rentals under these noncancelable subleases approximated $13.5 million as of December 31, 2015 .

Certain leases contain annual escalation clauses based on changes in the Consumer Price Index while others have fixed escalation terms. The excess of cumulative rent expense (recognized on a straight-line basis) over cumulative rent payments made on leases with fixed escalation terms is recognized as straight-line rental accrual and is included in *Other long-term liabilities* in the accompanying consolidated balance sheets, as follows (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Straight-line rental accrual | $ 11.8 | $ 14.6 |

In March 2008, we sold our corporate campus to Daniel Corporation ("Daniel"), a Birmingham, Alabama-based real estate company. The sale included a deferred purchase price component related to an incomplete 13-story building located on the property, often referred to as the Digital Hospital. Under the agreement, Daniel was obligated upon sale of its interest in the building to pay to us 40% of the net profit realized from the sale. In June 2013, Daniel sold the building to Trinity Medical Center. In the third quarter of 2013, we received $10.8 million in cash from Daniel in connection with the sale of the building. The gain associated with this transaction is being deferred and amortized over five years, which is the remaining life of our lease agreement with Daniel for the portion of the property we continue to occupy with our corporate office, as a component of *General and administrative expenses* .

Future minimum lease payments at December 31, 2015 , for those leases having an initial or remaining noncancelable lease term in excess of one year, are as follows (in millions):

| Year Ending December 31, | Operating Leases | Capital Lease Obligations | Total |
|---|---|---|---|
| 2016 | $ 59.2 | $ 32.8 | $ 92.0 |
| 2017 | 52.1 | 34.1 | 86.2 |
| 2018 | 46.0 | 33.4 | 79.4 |
| 2019 | 41.2 | 30.3 | 71.5 |
| 2020 | 32.9 | 27.8 | 60.7 |
| 2021 and thereafter | 156.2 | 384.7 | 540.9 |
| | $ 387.6 | 543.1 | $ 930.7 |
| Less: Interest portion | | (254.9) | |
| Obligations under capital leases | | $ 288.2 | |

In addition to the above, and as discussed in Note 8, *Long-term Debt* , "Other Notes Payable," we have two sale/leaseback transactions involving real estate accounted for as financings. Future minimum payments, which are accounted for as interest, under these obligations are $2.7 million in each of the next five years and $8.3 million thereafter.

**6. Goodwill and Other Intangible Assets :**

The following table shows changes in the carrying amount of *Goodwill* for the years ended December 31, 2015 , 2014 , and 2013 (in millions):

| | Amount |
|---|---|
| **Goodwill as of December 31, 2012** | $ 437.3 |
| Acquisition | 13.7 |
| Conversion of 100% owned hospital into a joint venture | 6.2 |
| Divestiture of skilled nursing facility beds | (0.3) |
| **Goodwill as of December 31, 2013** | 456.9 |
| Acquisitions | 593.1 |
| Consolidation of joint venture formerly accounted for under the equity method of accounting | 34.0 |
| **Goodwill as of December 31, 2014** | 1,084.0 |
| Acquisitions | 806.1 |
| **Goodwill as of December 31, 2015** | $ 1,890.1 |

*Goodwill* increased in 2013 as a result of our acquisition of Walton Rehabilitation Hospital and conversion of our 100% owned hospital in Jonesboro, Arkansas into a joint venture with St. Bernards Healthcare offset by the divestiture of 41 skilled nursing facility beds. *Goodwill* increased in 2014 as a result of our consolidation of Fairlawn and the remeasurement of our previously held equity interest at fair value and our acquisitions of Encompass and Quillen. *Goodwill* increased in 2015 as a result of our acquisitions of Reliant, CareSouth, and other inpatient and home health and hospice operations. See Note 2, *Business Combinations* and Note 11, *Redeemable Noncontrolling Interests* .

We performed impairment reviews as of October 1, 2015 , 2014 , and 2013 and concluded no *Goodwill* impairment existed. As of December 31, 2015 , we had no accumulated impairment losses related to *Goodwill* .

The following table provides information regarding our other intangible assets (in millions):

| | Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|
| **Certificates of need:** | | | |
| 2015 | $ 93.9 | $ (6.9) | $ 87.0 |
| 2014 | 27.9 | (4.0) | 23.9 |
| **Licenses:** | | | |
| 2015 | $ 138.9 | $ (53.7) | $ 85.2 |
| 2014 | 110.8 | (46.3) | 64.5 |
| **Noncompete agreements:** | | | |
| 2015 | $ 58.0 | $ (37.0) | $ 21.0 |
| 2014 | 46.2 | (29.4) | 16.8 |
| **Trade name - Encompass:** | | | |
| 2015 | $ 135.2 | $ — | $ 135.2 |
| 2014 | 135.2 | — | 135.2 |
| **Trade names - all other:** | | | |
| 2015 | $ 32.9 | $ (11.5) | $ 21.4 |
| 2014 | 19.9 | (10.1) | 9.8 |
| **Internal-use software:** | | | |
| 2015 | $ 155.7 | $ (90.5) | $ 65.2 |
| 2014 | 125.3 | (74.5) | 50.8 |
| **Market access assets:** | | | |
| 2015 | $ 13.2 | $ (8.8) | $ 4.4 |
| 2014 | 13.2 | (8.1) | 5.1 |
| **Total intangible assets:** | | | |
| 2015 | $ 627.8 | $ (208.4) | $ 419.4 |
| 2014 | 478.5 | (172.4) | 306.1 |

Amortization expense for other intangible assets is as follows (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Amortization expense | $ 36.0 | $ 20.3 | $ 17.3 |

Total estimated amortization expense for our other intangible assets for the next five years is as follows (in millions):

| Year Ending December 31, | Estimated Amortization Expense |
|---|---|
| 2016 | $ 45.4 |
| 2017 | 38.7 |
| 2018 | 30.3 |
| 2019 | 26.8 |
| 2020 | 23.3 |

**7. Investments in and Advances to Nonconsolidated Affiliates :**

Investments in and advances to nonconsolidated affiliates as of December 31, 2015 represents our investment in seven partially owned subsidiaries, of which six are general or limited partnerships, limited liability companies, or joint ventures in which HealthSouth or one of its subsidiaries is a general or limited partner, managing member, member, or venturer, as applicable. We do not control these affiliates but have the ability to exercise significant influence over the operating and financial policies of certain of these affiliates. Our ownership percentages in these affiliates range from approximately 1% to 60% . We account for these investments using the cost and equity methods of accounting. Our investments, which are included in *Other long-term assets* in our consolidated balance sheets, consist of the following (in millions):

| | As of December 31, | |
|---|---|---|
| | **2015** | **2014** |
| Equity method investments: | | |
| Capital contributions | $ 0.9 | $ 0.8 |
| Cumulative share of income | 88.0 | 77.3 |
| Cumulative share of distributions | (77.5) | (69.9) |
| | 11.4 | 8.2 |
| Cost method investments: | | |
| Capital contributions, net of distributions and impairments | 0.3 | 1.2 |
| Total investments in and advances to nonconsolidated affiliates | $ 11.7 | $ 9.4 |

The following summarizes the combined assets, liabilities, and equity and the combined results of operations of our equity method affiliates (on a 100% basis, in millions):

| | As of December 31, | |
|---|---|---|
| | **2015** | **2014** |
| Assets— | | |
| Current | $ 7.8 | $ 9.6 |
| Noncurrent | 20.5 | 13.1 |
| Total assets | $ 28.3 | $ 22.7 |
| Liabilities and equity— | | |
| Current liabilities | $ 1.4 | $ 0.7 |
| Noncurrent liabilities | 0.1 | 0.1 |
| Partners’ capital and shareholders’ equity— | | |
| HealthSouth | 11.4 | 8.2 |
| Outside partners | 15.4 | 13.7 |
| Total liabilities and equity | $ 28.3 | $ 22.7 |

Condensed statements of operations (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net operating revenues | $ 36.5 | $ 50.2 | $ 74.3 |
| Operating expenses | (15.0) | (25.9) | (43.6) |
| Income from continuing operations, net of tax | 18.9 | 30.9 | 24.6 |
| Net income | 18.9 | 30.9 | 24.6 |

See Note 2, *Business Combinations* .

## 8. Long-term Debt :

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

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Credit Agreement— | | |
| Advances under revolving credit facility | $ 130.0 | $ 325.0 |
| Term loan facilities | 443.3 | 447.5 |
| Bonds payable— | | |
| 8.125% Senior Notes due 2020 | — | 282.7 |
| 7.75% Senior Notes due 2022 | 174.3 | 223.7 |
| 5.125% Senior Notes due 2023 | 294.6 | — |
| 5.75% Senior Notes due 2024 | 1,192.6 | 447.4 |
| 5.75% Senior Notes due 2025 | 343.4 | — |
| 2.00% Convertible Senior Subordinated Notes due 2043 | 265.9 | 256.7 |
| Other notes payable | 39.2 | 41.5 |
| Capital lease obligations | 288.2 | 86.7 |
| | 3,171.5 | 2,111.2 |
| Less: Current portion | (36.8) | (20.8) |
| Long-term debt, net of current portion | $ 3,134.7 | $ 2,090.4 |

On December 31, 2015, we adopted ASU 2015-03 and ASU No. 2015-15, which require debt issuance costs related to a recognized debt liability be presented on the consolidated balance sheet as a direct deduction from the debt liability, As of December 31, 2014, $20.4 million of debt issuance costs previously included in *Other long-term assets* have been reclassified to *Long-term debt, net of current portion* on our consolidated balance sheet. See Note 1, *Summary of Significant Accounting Policies* , “Recent Accounting Pronouncements.”

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

| Year Ending December 31, | Face Amount | Net Amount |
|---|---|---|
| 2016 | $ 37.0 | $ 37.0 |
| 2017 | 36.1 | 36.1 |
| 2018 | 36.3 | 36.3 |
| 2019 | 39.5 | 39.4 |
| 2020 | 814.2 | 758.4 |
| Thereafter | 2,285.4 | 2,264.3 |
| Total | $ 3,248.5 | $ 3,171.5 |

During 2015, we:

- issued, in January 2015, an additional $400 million of our 5.75% Senior Notes due 2024 (the “2024 Notes”) at a price of 102% of the principal amount and used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility. As a result of the repayment of borrowings under our term loan facility, we recorded a $1.2 million *Loss on early extinguishment of debt* in the first quarter of 2015;
- issued, in March 2015, $300 million of 5.125% Senior Notes due 2023 (the “2023 Notes”) at a price of 100.0% of the principal amount, which resulted in approximately $295 million in net proceeds used for the redemption of our 8.125% Senior Notes due 2020 (the “2020 Notes”) as discussed below;
- redeemed, in April 2015, all of our 2020 Notes using the net proceeds from the 2023 Notes offering along with cash on hand. Pursuant to the terms of these notes, this redemption was made at a price of 104.063% , which resulted in a total cash outlay of approximately $302 million to retire the $290 million in principal. As a result of this redemption, we recorded an $18.8 million *Loss on early extinguishment of debt* in the second quarter of 2015;
- amended, in June and July 2015, our existing credit agreement to, among other things, add $500 million of new term loan facilities, increase the amount of specifically permitted capital lease obligations from $200 million to $350 million , change the maximum leverage ratio in the financial covenants applicable for the period July 2015 through June 2017 from 4.25x to 4.5x and to 4.25x from then until maturity, and extend the maturity date for all borrowings to July 2020. Based on our issuance of additional senior notes in August 2015 and September 2015, as discussed below, our availability under the new term loan facilities was reduced to $250 million . In September, we borrowed $125 million of the new term loan facilities, the proceeds of which were used to fund a portion of the Reliant acquisition. In October, we utilized the remaining $125 million of term loan facility capacity to finance a portion of the CareSouth acquisition. See Note 2, *Business Combinations* ;
- issued, in August 2015, an additional $350 million of our 2024 Notes at a price of 100.5% of the principal amount, which resulted in approximately $351 million in net proceeds from the private offering. We used the net proceeds to reduce borrowings under our revolving credit facility and fund a portion of the Reliant acquisition, as discussed in Note 2, *Business Combinations* ;
- issued, in September 2015, $350 million of 5.75% Senior Notes due 2025 (the “2025 Notes”) at a price of 100.0% of the principal amount, which resulted in approximately $344 million in net proceeds from the private offering. We used the net proceeds to fund a portion of the Reliant acquisition, as discussed in Note 2, *Business Combinations* ; and
- redeemed, in November 2015, $50 million of the outstanding principal amount of our existing 7.75% Senior Notes due 2022 (the “2022 Notes”) using borrowings under our senior secured credit facility. Pursuant to the terms of the 2022 Notes, this optional redemption was made at a price of 103.875% , which resulted in a total cash

outlay of approximately $52 million . As a result of this redemption, we recorded a $2.4 million *Loss on early extinguishment of debt* in the fourth quarter of 2015.

On February 23, 2016, we gave notice of, and made an irrevocable commitment for, the redemption of $50 million of the outstanding principal amount of the 2022 Notes. Pursuant to the terms of the 2022 Notes, this optional redemption will be at a price of 103.875% , which will result in a total cash outlay of approximately $52 million when the transaction closes, which is expected to be on March 24, 2016. We plan to use cash on hand and capacity under our revolving credit facility to fund the redemption. As a result of this redemption, we expect to record an approximate $2 million loss on early extinguishment of debt in the first quarter of 2016.

During 2014, we:

- issued, in September 2014, an additional $175 million of our 2024 Notes at a price of 103.625% of the principal amount, which resulted in approximately $182 million in net proceeds from the public offering. We used the net proceeds to redeem our 7.25% Senior Notes due 2018 (the "2018 Notes") as discussed below;
- amended, in September and December 2014, our existing credit agreement to, among other things, add $450 million of term loan facility capacity, permit unlimited restricted payments (as defined in the credit agreement) so long as the senior secured leverage ratio remains less than or equal to 1.75x, and extend the revolver maturity from June 2018 to September 2019;
- redeemed, in October 2014, the outstanding principal amount of our 2018 Notes using the net proceeds from the September offering of our 2024 Notes, a $75 million draw under our term loan facilities, and cash on hand. Pursuant to the terms of the 2018 Notes, this redemption was made at a price of 103.625% , which resulted in a total cash outlay of approximately $281 million to retire the approximate $271 million in principal; and
- redeemed, in December 2014, approximately $25 million of the outstanding principal amount of our existing 2022 Notes. Pursuant to the terms of the 2022 Notes, this optional redemption represented 10% of the outstanding principal amount of the notes at a price of 103% , which resulted in a total cash outlay of approximately $26 million . We used cash on hand for this redemption.

As a result of the above 2014 redemptions, we recorded a $13.2 million *Loss on early extinguishment of debt* in 2014. Additionally, in December 2014, we drew $375 million under our term loan facilities and $325 million under our revolving credit facility to fund the acquisition of Encompass. See Note 2, *Business Combinations* .

In November 2013, we redeemed approximately $30 million and approximately $28 million of the outstanding principal amount of our existing 2018 Notes and our existing 2022 Notes, respectively. Pursuant to the terms of these senior notes, this optional redemption represented 10% of the outstanding principal amount of the notes at a price of 103% , which resulted in a total cash outlay of approximately $60 million to retire the approximate $58 million in principal. We used a combination of cash on hand and availability under our revolving credit facility for these redemptions. As a result of these redemptions, we recorded a $2.4 million *Loss on early extinguishment of debt* in 2013. Additionally, in November 2013, we exchanged $320 million in aggregate principal amount of newly issued 2.00% Convertible Senior Subordinated Notes due 2043 for 257,110 shares of our outstanding 6.50% Series A Convertible Perpetual Preferred Stock. See Note 10, *Convertible Perpetual Preferred Stock* .

*Senior Secured Credit Agreement—*

2015 Credit Agreement

In June and July 2015, we amended our existing credit agreement, previously amended on December 23, 2014 (the "Credit Agreement"). The Credit Agreement provides for a $600 million revolving credit facility, with a $260 million letter of credit subfacility and a swingline loan subfacility, all of which mature in July 2020. Outstanding term loan borrowings are payable in equal consecutive quarterly installments, commencing on March 31, 2016, of 1.25% of the aggregate principal amount of the term loans outstanding as of December 31, 2015, with the remainder due at maturity. We have the right at any time to prepay, in whole or in part, any borrowing under the term loan facilities.

Amounts drawn on the term loan facilities and the revolving credit facility bear interest at a rate per annum of, at our option, (1) LIBOR or (2) the higher of (a) Barclays' Bank PLC's ("Barclays") prime rate and (b) the federal funds rate plus 0.5% , in each case, plus, in each case, an applicable margin that varies depending upon our leverage ratio. We are also subject to a commitment fee of 0.375% per annum on the daily amount of the unutilized commitments under the term loan facilities and revolving credit facility. The current interest rate on borrowings under the Credit Agreement is LIBOR plus 2.00% .

The Credit Agreement contains affirmative and negative covenants and default and acceleration provisions, including a minimum interest coverage ratio and a maximum leverage ratio that change over time. Under one such negative covenant, we are restricted from paying common stock dividends, prepaying certain senior notes, and repurchasing preferred and common equity unless (1) we are not in default under the terms of the Credit Agreement and (2) our senior secured leverage ratio, as defined in the Credit Agreement, does not exceed 1.75x. In the event the senior secured leverage ratio exceeds 1.75x, these payments are subject to a limit of $200 million plus an amount equal to a portion of available excess cash flows each fiscal year. Our obligations under the Credit Agreement are secured by the current and future personal property of the Company and its subsidiary guarantors. The current maximum leverage ratio in the financial covenants is 4.50x.

As of Decem ber 31, 2015, $130 million were drawn under the revolving credit facility with an interest rate of 2.3% . Amounts drawn as of December 31 , 2015 exclude $34.2 million utilized under the letter of credit subfacility, which were being used in the ordinary course of business to secure workers' compensation and other insurance coverages and for general corporate purposes.

2014 Credit Agreement

In September and December 2014, we amended our existing credit agreement, previously amended on June 11, 2013 (the "2014 Credit Agreement"). The 2014 Credit Agreement provided for $450 million of term loan capacity and a $600 million revolving credit facility, with a $260 million letter of credit subfacility and a swingline loan subfacility, all of which would have matured in September 2019. Outstanding term loan borrowings were payable in equal consecutive quarterly installments, commencing on March 31, 2015, of 1.25% of the aggregate principal amount of the term loans outstanding as of March 31, 2015 with the remainder due at maturity. The 2014 Credit Agreement contained the same affirmative and negative covenants and default and acceleration provisions as the Credit Agreement, except for the maximum leverage ratio was 4.25x.

As of Dec ember 31, 2014, $325 million were drawn under the revolving credit facility with an interest rate of 2.0% . Amounts drawn as of December 31, 2014 excluded $31.8 million utilized under the letter of credit subfacility, which were being used in the ordinary course of business to secure workers' compensation and other insurance coverages and for general corporate purposes.

2013 Credit Agreement

On June 11, 2013, we amended our existing credit agreement, dated August 10, 2012 (the " 2013 Credit Agreement"). The 2013 Credit Agreement provided for a $600 million revolving credit facility with a $260 million letter of credit subfacility and a swingline loan subfacility, all of which would have matured in June 2018.

The 2013 Credit Agreement contained comparable affirmative and negative covenants and default and acceleration provisions as the 2014 Credit Agreement. Our obligations under the 2013 Credit Agreement were secured by substantially all of the real and personal property of us and our subsidiary guarantors, including mortgages with respect to certain of our material real property that we owned as of the date of the 2013 Credit Agreement.

*Bonds Payable—*

Nonconvertible Notes

The Company's 2020 Notes, 2022 Notes, 2023 Notes, 2024 Notes, and 2025 Notes (collectively, the "Senior Notes") were issued pursuant to an indenture (the "Base Indenture") dated as of December 1, 2009 between us and The Bank of Nova Scotia Trust Company of New York, as trustee (the "Original Trustee"), as supplemented by each Senior Notes respective supplemental indenture (together with the Base Indenture, the "Indenture"), among us, the Subsidiary Guarantors (as defined in the Indenture), and the Original Trustee. The Original Trustee notified us of its intention to discontinue its corporate trust operations and, accordingly, to resign upon the appointment of a successor trustee. Effective July 29, 2013, Wells Fargo Bank,

National Association, was appointed as successor trustee under the Indenture.

Pursuant to the terms of the Indenture, the Senior Notes are jointly and severally guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our Credit Agreement and other capital markets debt (see Note 20, *Condensed Consolidating Financial Information* ). The Senior Notes are senior, unsecured obligations of HealthSouth and rank equally with our other senior indebtedness, senior to any of our subordinated indebtedness, and effectively junior to our secured indebtedness to the extent of the value of the collateral securing such indebtedness.

Upon the occurrence of a change in control (as defined in the Indenture), each holder of the Senior Notes may require us to repurchase all or a portion of the notes in cash at a price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest.

The Senior Notes contain covenants and default and acceleration provisions, that, among other things, limit our and certain of our subsidiaries' ability to (1) incur additional debt, (2) make certain restricted payments, (3) consummate specified asset sales, (4) incur liens, and (5) merge or consolidate with another person.

*2018 and 2022 Notes*

On October 7, 2010, we completed a public offering of $525.0 million aggregate principal amount of senior notes, which included $275.0 million of 2018 Notes at par and $250.0 million of 2022 Notes at par (collectively, the "2018 and 2022 Senior Notes"). We used the net proceeds from the initial offering of the 2018 and 2022 Senior Notes to repay amounts outstanding under the term loan facility of our former credit agreement dated March 2006.

On March 7, 2011, we completed a public offering of $120 million aggregate principal amount of senior notes, which included an additional $60 million of the 2018 Notes at 103.25% of the principal amount and an additional $60 million of the 2022 Notes at 103.50% of the principal amount. Net proceeds from this offering were approximately $122 million . We used approximately $45 million of the net proceeds to repay a portion of the amounts outstanding under our revolving credit facility. In June 2011, the remainder of the net proceeds were used to redeem a portion of our former senior notes due 2016 outstanding at that time.

On October 9, 2012, $64.5 million of the net proceeds from our public offering of the 2024 Notes were used to redeem $33.5 million of the outstanding principal amount of our existing 2018 Notes and $31.0 million of the outstanding principal amount of our existing 2022 Notes. The notes were redeemed at a price of 103% , which resulted in an additional cash outlay of $1.9 million from the net proceeds.

On November 29, 2013, we redeemed $30.2 million and $27.9 million of the outstanding principal amount of our existing 2018 Notes and our existing 2022 Notes, respectively. Pursuant to the terms of these senior notes, this optional redemption represented 10% of the outstanding principal amount of the notes at a price of 103% , which resulted in a total cash outlay of approximately $60 million to retire the $58.1 million in principal. We used a combination of cash on hand and availability under our revolving credit facility for this redemption.

On October 1, 2014, we redeemed the remaining $271.4 million outstanding principal amount of our 2018 Notes. Pursuant to the terms of the 2018 Notes, this redemption was made at a price of 103.625% , which resulted in a total cash outlay of approximately $281 million to retire the $271.4 million in principal. We used the net proceeds from the $175 million September offering of our existing 2024 Notes discussed below, a $75 million draw under our term loan facilities, and cash on hand for this redemption. The 2018 Notes would have matured on October 1, 2018 . Inclusive of financing costs, the effective interest rate on the 2018 Notes was 7.5% . Interest was payable semiannually in arrears on April 1 and October 1 of each year.

On December 1, 2014, we redeemed $25.1 million of the outstanding principal amount of our existing 2022 Notes. Pursuant to the terms of the 2022 Notes, this optional redemption represented 10% of the outstanding principal amount of the notes at a price of 103% , which resulted in a total cash outlay of approximately $26 million to retire the $25.1 million in principal. We used cash on hand for this redemption.

On November 30, 2015, we redeemed $50.0 million of the outstanding principal amount of our existing 2022 Notes. Pursuant to the terms of the 2022 Notes, this optional redemption was made at a price of 103.875% , which resulted in a total

cash outlay of approximately $52 million . We used cash borrowings under our senior secured credit facility to fund the redemption.

2022 Notes

The 2022 Notes mature on September 15, 2022 and bear interest at a per annum rate of 7.75% . Inclusive of financing costs, the effective interest rate on the 2022 Notes is 7.9% . Interest is payable semiannually in arrears on March 15 and September 15 of each year.

We may redeem the 2022 Notes, in whole or in part, at any time on or after September 15, 2015, at the redemption prices set forth below:

| **Period** | **Redemption Price*** |
|---|---|
| 2015 | 103.875% |
| 2016 | 102.583% |
| 2017 | 101.292% |
| 2018 and thereafter | 100.000% |

* Expressed in percentage of principal amount

*2020 Notes*

In December 2009, we issued $290.0 million of the 2020 Notes at 98.327% of par. We used the net proceeds from this transaction along with cash on hand to tender for and redeem all of our former floating rate senior notes due 2014 outstanding at that time.

If not for the April 2015 redemption as discussed above, the 2020 Notes would have matured on February 15, 2020. Inclusive of discounts and financing costs, the effective interest rate on the 2020 Notes was 8.7% . Interest was payable semiannually in arrears on February 15 and August 15 of each year.

*2023 Notes*

On March 12, 2015, we issued $300 million of the 2023 Notes at a price of 100.0% of the principal amount, which resulted in approximately $295 million in net proceeds from the public offering. The 2023 Notes mature on March 15, 2023 and bear interest at a per annum rate of 5.125% . Interest on the 2023 Notes is payable semiannually in arrears on March 15 and September 15, beginning on September 15, 2015.

We may redeem the 2023 Notes, in whole or in part, at any time on or after March 15, 2018 at the redemption prices set forth below:

| **Period** | **Redemption Price*** |
|---|---|
| 2018 | 103.844% |
| 2019 | 102.563% |
| 2020 | 101.281% |
| 2021 and thereafter | 100.000% |

* Expressed in percentage of principal amount

*2024 Notes*

On September 11, 2012, we completed a public offering of $275 million aggregate principal amount of the 2024 Notes at a public offering price of 100% of the principal amount. Net proceeds from this offering were approximately $270 million . We used $195 million of the net proceeds to repay the amounts outstanding under our revolving credit facility. Additionally, in October 2012, $64.5 million of the net proceeds were used to redeem a portion of our 2018 and 2022 Senior Notes.

On September 18, 2014, we issued an additional $175 million of the 2024 Notes at a price of 103.625% of the principal amount, which resulted in approximately $182 million in net proceeds from the public offering. We used the net proceeds to redeem the 2018 Notes, as discussed above.

On January 29, 2015, we issued an additional $400 million of the 2024 Notes at a price of 102% of the principal amount, which resulted in approximately $406 million in net proceeds from the public offering. We used $250 million of the net proceeds to repay borrowings under our term loan facilities, with the remaining net proceeds used to repay borrowings under our revolving credit facility.

On August 7, 2015, we issued an additional $350 million of our 2024 Notes at a price of 100.5% of the principal amount, which resulted in approximately $351 million in net proceeds from the private offering. We used the net proceeds to reduce borrowings under our revolving credit facility and fund a portion of the Reliant acquisition, as discussed in Note 2, *Business Combinations.*

The 2024 Notes mature on November 1, 2024 and bear interest at a per annum rate of 5.75% . Inclusive of financing costs, the effective interest rate on the 2024 Notes is 5.8% . Interest is payable semiannually in arrears on May 1 and November 1 of each year.

We may redeem the 2024 Notes, in whole or in part, at any time on or after November 1, 2017, at the redemption prices set forth below:

| **Period** | **Redemption Price*** |
|---|---|
| 2017 | 102.875% |
| 2018 | 101.917% |
| 2019 | 100.958% |
| 2020 and thereafter | 100.000% |

* Expressed in percentage of principal amount

*2025 Notes*

On September 16, 2015, we issued $350 million of the 2025 Notes at a price of 100.0% of the principal amount, which resulted in approximately $344 million in net proceeds from the private offering. We used the net proceeds from this borrowing to fund a portion of the Reliant acquisition. The 2025 Notes mature on September 15, 2025 and bear interest at a per annum rate of 5.75% . Interest on the 2025 Notes is payable semiannually in arrears on March 15 and September 15, beginning on March 15, 2016.

We may redeem the 2025 Notes, in whole or in part, at any time on or after September 15, 2020, at the redemption prices set forth below:

| Period | Redemption Price* |
|---|---|
| 2020 | 102.875% |
| 2021 | 101.917% |
| 2022 | 100.958% |
| 2023 and thereafter | 100.000% |

* Expressed in percentage of principal amount

Convertible Notes

*Convertible Senior Subordinated Notes Due 2043*

On November 18, 2013, we exchanged $320 million in aggregate principal amount of newly issued 2.00% Convertible Senior Subordinated Notes due 2043 (the "Convertible Notes") for 257,110 shares of our outstanding 6.50% Series A Convertible Perpetual Preferred Stock. The Company's Convertible Notes were issued pursuant to an indenture dated November 18, 2013 (the "Convertible Notes Indenture") between us and Wells Fargo Bank, National Association, as trustee and conversion agent. The Convertible Notes are senior subordinated unsecured obligations of the Company. As such, the Convertible Notes are subordinated to all our existing and future senior unsecured debt and are effectively subordinated to our existing and future secured debt to the extent of the value of the collateral securing such debt. Additionally, the Convertible Notes are structurally subordinated to all existing and future debt and other obligations of our subsidiaries.

The Convertible Notes bear regular interest at a rate of 2.0% per year payable semiannually in arrears in cash on June 1 and December 1 of each year . Beginning with the six-month period starting December 1, 2018, contingent interest is payable, in addition to regular interest, if the trading price of the Convertible Notes for each of the five trading days ending two trading days prior to any six-month contingent interest period is equal to or greater than $1,200. The amount of contingent interest payable per $1,000 principal amount of the Convertible Notes in respect of any contingent interest period is equal to 0.25% of the average trading price of the Convertible Notes during the specified measurement period. Due to discounts and financing costs, the effective interest rate on the Convertible Notes is 6.0% .

The Convertible Notes mature on December 1, 2043 , unless earlier redeemed, repurchased, or converted. The Convertible Notes are convertible, at the option of the holder, at any time on or prior to the close of business on the business day immediately preceding December 1, 2043 into shares of our common stock at an initial conversion rate of 25.2194 shares per $1,000 principal amount of the Convertible Notes, subject to customary antidilution adjustments. This conversion rate equates to an initial conversion price of $39.652 per share. We may elect to settle any conversion, in whole or in part, by delivering cash in lieu of shares. Upon the occurrence of certain change of control events and a redemption prior to December 2018, in either case, in connection with elections by holders to convert their Convertible Notes, we will pay a make-whole premium on any Convertible Notes converted by increasing the conversion rate on such Convertible Notes.

The payment of dividends on our common stock has triggered and will continue to trigger, from time to time, the antidilutive adjustment provisions of the Convertible Notes, except in instances when such adjustments are deemed *de minimis* . The current conversion price of the Convertible Notes is $38.08 , and the current conversion rate i s 26.2583 for each $1,000 principal amount of the Convertible Notes.

Prior to December 1, 2018, we may redeem all or any part of the Convertible Notes if the volume weighted-average price per share of our common stock is at least 120% of the conversion price of the Convertible Notes for at least 20 trading days during any 30 consecutive trading day period, at a redemption price equal to 100% of the principal amount of Convertible Notes to be redeemed, plus accrued and unpaid interest, provided that, as described above, the holders may elect to convert their Convertible Notes in lieu of the redemption and receive any make-whole premium due. On or after December 1, 2018, we

may, at our option, redeem all or any part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest.

Upon the occurrence of a fundamental change (as defined in the Convertible Notes Indenture), each holder of the Convertible Notes may require us to repurchase for cash all or any portion of such holders' Convertible Notes at a price equal to 100% of the principal amount of the repurchased Convertible Notes, plus accrued and unpaid interest thereon to, but excluding, the repurchase date and, if the fundamental change also constitutes a nonstock change of control (as defined in the Convertible Notes Indenture), the amount of any make-whole premium due. Holders may, at their option, also require us to repurchase all or any portion of such holders' Convertible Notes on December 1 of 2020, 2027, 2034, and 2041 at a price equal to 100% of the principal amount of the repurchased Convertible Notes, plus accrued and unpaid interest thereon to, but excluding, the repurchase date.

The Convertible Notes Indenture contains customary events of default, which includes, among other things, a default in the obligation of the Company to convert the Convertible Notes that continues for five business days.

See also Note 10, *Convertible Perpetual Preferred Stock* .

*Other Notes Payable—*

Our notes payable consist of the following (in millions):

| | As of December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | Interest Rates |
| Sale/leaseback transactions involving real estate accounted for as financings | $ 28.0 | $ 28.0 | 8.1% to 11.2% |
| Acquisition of an inpatient rehabilitation unit | 1.3 | 2.9 | 7.8% |
| Construction of a new hospital | 9.6 | 10.3 | LIBOR + 2.5%; 2.7% as of December 31, 2015 and 2014 |
| Other | 0.3 | 0.3 | 6.8% |
| Other notes payable | $ 39.2 | $ 41.5 | |

*Capital Lease Obligations—*

We engage in a significant number of leasing transactions including real estate and other equipment utilized in operations. Leases meeting certain accounting criteria have been recorded as an asset and liability at the lower of fair value or the net present value of the aggregate future minimum lease payments at the inception of the lease. Interest rates used in computing the net present value of the lease payments generally ranged from 2% to 11% based on our incremental borrowing rate at the inception of the lease. Our leasing transactions include arrangements for vehicles with major finance companies and manufacturers who retain ownership in the equipment during the term of the lease and with a variety of both small and large real estate owners.

**9. Self-Insured Risks :**

We insure a substantial portion of our professional liability, general liability, and workers' compensation risks through a self-insured retention program ("SIR") underwritten by our consolidated wholly owned offshore captive insurance subsidiary, HCS, Ltd., which we fund via regularly scheduled premium payments. HCS is an insurance company licensed by the Cayman Island Monetary Authority. We use HCS to fund our first layer of insurance coverage up to approximately $25 million for annual aggregate losses associated with general and professional liability risks. Workers' compensation exposures are capped on a per claim basis. Risks in excess of specified limits per claim and in excess of our aggregate SIR amount are covered by unrelated commercial carriers.

The following table presents the changes in our self-insurance reserves for the years ended December 31, 2015 , 2014 , and 2013 (in millions):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Balance at beginning of period, gross** | $ 134.3 | $ 140.3 | $ 148.3 |
| Less: Reinsurance receivables | (26.0) | (32.6) | (29.4) |
| **Balance at beginning of period, net** | 108.3 | 107.7 | 118.9 |
| Increase for the provision of current year claims | 37.1 | 34.7 | 34.4 |
| Decrease for the provision of prior year claims | (4.6) | (3.5) | (5.9) |
| Decrease related to change in statistical confidence level | — | — | (6.7) |
| Expenses related to discontinued operations | (0.5) | (0.3) | (1.8) |
| Payments related to current year claims | (4.7) | (4.4) | (3.9) |
| Payments related to prior year claims | (22.5) | (25.9) | (27.3) |
| Acquisitions | 2.4 | — | — |
| **Balance at end of period, net** | 115.5 | 108.3 | 107.7 |
| Add: Reinsurance receivables | 26.6 | 26.0 | 32.6 |
| **Balance at end of period, gross** | $ 142.1 | $ 134.3 | $ 140.3 |

As of December 31, 2015 and 2014 , $40.5 million and $35.6 million , respectively, of these reserves are included in *Other current liabilities* in our consolidated balance sheets.

Provisions for these risks are based primarily upon actuarially determined estimates. These reserves represent the unpaid portion of the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated ultimate loss amounts are included in current operating results.

In the years leading up to 2013, we experienced volatility in our estimates of prior year claim reserves due primarily to favorable trends in claims and industry-wide loss development trends. Our efforts to improve patient safety and overall quality of care, as well as our efforts to reduce workplace injuries, helped contain our ultimate claim costs. With the accumulation of this additional historical data and favorable trends, when we analyzed our assumptions during our semi-annual review of our self-insurance reserves in the fourth quarter of 2013, we lowered the statistical confidence level used to determine our self-insurance reserves from 70% to 50% . This change reduced our reserves included in continuing operations by $6.7 million in the fourth quarter of 2013.

The reserves for these self-insured risks cover approximately 1,100 individual claims at December 31, 2015 and 2014 , and estimates for potential unreported claims. The time period required to resolve these claims can vary depending upon the jurisdiction, the nature, and the form of resolution of the claims. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in reserve estimates, management believes the reserves for losses and loss expenses are adequate; however, there can be no assurance the ultimate liability will not exceed management’s estimates.

## 10. Convertible Perpetual Preferred Stock :

On March 7, 2006 , we completed the sale of 400,000 shares of our 6.50% Series A Convertible Perpetual Preferred Stock. The preferred stock has a liquidation preference of $1,000 per share of preferred stock, which is contingently subject to accretion. Holders of the preferred stock are entitled to receive, when and if declared by our board of directors, cash dividends at the rate of 6.50% per annum on the accreted liquidation preference per share, payable quarterly in arrears. Dividends on the preferred stock are cumulative. Each holder of preferred stock has one vote for each share held by the holder on all matters voted upon by the holders of our common stock.

The preferred stock is convertible, at the option of the holder, at any time into shares of our common stock. We may at any time cause the shares of preferred stock to be automatically converted into shares of our common stock at the conversion rate then in effect if the closing sale price of our common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give the notice of forced conversion exceeds 150% of the conversion price of the preferred stock. If we are subject to a fundamental change, as defined in the certificate of designation of the preferred stock, each holder of shares of preferred stock has the right, subject to certain limitations, to require us to purchase with cash any or all of its shares of preferred stock at a purchase price equal to 100% of the accreted liquidation preference, plus any accrued and unpaid dividends to the date of purchase. In addition, if holders of the preferred stock elect to convert shares of preferred stock in connection with certain fundamental changes, we will in certain circumstances increase the conversion rate for such shares of preferred stock. As redemption of the preferred stock is contingent upon the occurrence of a fundamental change, and since we do not deem a fundamental change probable of occurring, accretion of our *Convertible perpetual preferred stock* is not necessary.

The agreement underlying the preferred stock includes antidilutive protection that requires adjustments to the number of shares of common stock issuable upon conversion and the exercise price for common stock upon the occurrence of certain events, including payment of cash dividends on our common stock after a *de minimis* threshold. At issuance, the preferred stock had a conversion price of $30.50 per share, which was equal to an initial conversion rate of 32.7869 shares of common stock per share of preferred stock.

In the fourth quarter of 2013, we exchanged $320.0 million in aggregate principal amount of newly issued 2.00% Convertible Senior Subordinated Notes due 2043 for 257,110 shares of our outstanding preferred stock. No common stock was issued as part of these exchange transactions. See Note 8, *Long-term Debt* .

On April 22, 2015, we delivered notice of the exercise of our rights to force conversion of all outstanding shares of our *Convertible perpetual preferred stock* (par value of $0.10 per share and liquidation preference of $1,000 per share) pursuant to the underlying certificate of designations. The effective date of the conversion was April 23, 2015. On that date, each share of preferred stock automatically converted into 33.9905 shares of our common stock (par value of $0.01 per share). We completed the forced conversion by issuing and delivering in the aggregate 3,271,415 shares of our common stock to the registered holders of the 96,245 shares of the preferred stock outstanding and paying cash in lieu of fractional shares due to those holders.

The following is a summary of the activity related to our *Convertible perpetual preferred stock* from December 31, 2012 to December 31, 2015 (in millions, except share data):

| | Number of Shares Outstanding | Amount |
|---|---|---|
| **Balance as of December 31, 2012** | 353,355 | $ 342.2 |
| Repurchase of preferred stock | (257,110) | (249.0) |
| **Balance as of December 31, 2013 and 2014** | 96,245 | 93.2 |
| Conversion of preferred stock | (96,245) | (93.2) |
| **Balance as of December 31, 2015** | — | $ — |

The allocation of the consideration exchanged for repurchases of preferred stock is as follows (in millions):

| | For the Year Ended December 31, 2013 |
|---|---|
| Carrying value of shares repurchased | $ 249.0 |
| Cumulative dividends included as part of repurchase price | 2.2 |
| Excess exchanged in transaction | 71.6 |
| | $ 322.8 |

For 2013, the difference between the fair value of the consideration paid to the holders of the preferred stock, or $322.8 million (including fees), and the carrying value of the preferred stock in our balance sheet, or $249.0 million , resulted in a charge of $73.8 million to *Capital in excess of par value* that was treated like a dividend and subtracted from *Net income* to arrive at *Net income attributable to HealthSouth common shareholders* in our consolidated statement of operations. Of this amount, $2.2 million represents cumulative dividends through the date of the repurchase transactions.

We declared $1.6 million , $6.3 million , and $21.0 million in dividends on our preferred stock in the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2014, accrued dividends of $1.6 million were included in *Other current liabilities* on our consolidated balance sheet and was paid in January 2015 .

## 11. Redeemable Noncontrolling Interests

The following is a summary of the activity related to our *Redeemable noncontrolling interests* (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Balance at beginning of period** | $ 84.7 | $ 13.5 | $ 7.2 |
| Acquisition of Encompass | — | 64.5 | — |
| Net income attributable to noncontrolling interests | 13.8 | 6.6 | 5.8 |
| Distributions | (7.3) | (8.5) | (4.9) |
| Contribution to joint venture | — | 4.3 | 7.1 |
| Change in fair value | 29.9 | 4.3 | (1.7) |
| **Balance at end of period** | $ 121.1 | $ 84.7 | $ 13.5 |

The following table reconciles the net income attributable to nonredeemable *Noncontrolling interests* , as recorded in the shareholders' equity section of the consolidated balance sheets, and the net income attributable to *Redeemable noncontrolling interests* , as recorded in the mezzanine section of the consolidated balance sheets, to the *Net income attributable to noncontrolling interests* presented on the consolidated statements of operations (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net income attributable to nonredeemable noncontrolling interests | $ 55.9 | $ 53.1 | $ 52.0 |
| Net income attributable to redeemable noncontrolling interests | 13.8 | 6.6 | 5.8 |
| Net income attributable to noncontrolling interests | $ 69.7 | $ 59.7 | $ 57.8 |

See also Note 2, *Business Combinations* .

**12. Fair Value Measurements :**

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

| | | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|---|
| **As of December 31, 2015** | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Valuation Technique [(1)]** |
| Prepaid expenses and other current assets: | | | | | |
| Current portion of restricted marketable securities | $ 16.1 | $ — | $ 16.1 | $ — | M |
| Other long-term assets: | | | | | |
| Restricted marketable securities | 40.1 | — | 40.1 | — | M |
| Redeemable noncontrolling interests | 121.1 | — | — | 121.1 | I |
| **As of December 31, 2014** | | | | | |
| Prepaid expenses and other current assets: | | | | | |
| Current portion of restricted marketable securities | $ 4.6 | $ — | $ 4.6 | $ — | M |
| Other long-term assets: | | | | | |
| Option to purchase SCA stock | 9.9 | — | — | 9.9 | M |
| Restricted marketable securities | 45.9 | — | 45.9 | — | M |
| Redeemable noncontrolling interests | 84.7 | — | — | 84.7 | I |

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

In connection with the 2007 sale of our surgery centers division, now known as Surgical Care Affiliates ("SCA"), to ASC Acquisition LLC, an affiliate of TPG Partners V, L.P. ("TPG"), a private investment partnership, we received an option, subject to terms and conditions set forth below, to purchase up to a 5% equity interest in SCA. The price of the option was equal to the original issuance price of the units subscribed for by TPG and certain other co-investors in connection with the acquisition plus a 15% premium, compounded annually. The option had a term of ten years and was exercisable upon certain liquidity events, including a public offering of SCA's shares of common stock that resulted in 30% or more of SCA's common stock being listed or traded on a national securities exchange. On November 4, 2013, SCA announced the closing of its initial public offering, which did not reach the 30% threshold to trigger a qualifying liquidity event.

During the second quarter of 2014, we entered into an amendment to the option agreement that required us to settle the option net of our exercise price. The addition of this new feature resulted in the option becoming a derivative that must be recorded as an asset or liability on our consolidated balance sheet and marked to market each period. As of December 31, 2014, the fair value of this option was $9.9 million and is included in *Other long-term assets* in our consolidated balance sheet. *Income from discontinued operations, net of tax* for the year ended December 31, 2014 included a $9.9 million gain resulting from the initial recording of this option as a derivative and its fair value adjustments during 2014. *Income from discontinued operations, net of tax* for the year ended December 31, 2015 included a $0.4 million net loss resulting from the change in fair value of this option from December 31, 2014 to March 31, 2015.

On April 1, 2015, TPG closed a secondary offering of SCA common stock, which resulted in greater than 30% of SCA's common stock being listed or traded on a national securities exchange, and our option became exercisable. On April 9, 2015, we delivered notice of exercise of the option to SCA. On April 13, 2015, SCA settled the net exercise of the option by delivering to us 326,242 shares of SCA common stock. The closing price of the stock on that date was $35.43 per share. *Other income* for the year ended December 31, 2015 included a $2.0 million gain resulting from the change in fair value of this option

from April 1, 2015, the date the option became exercisable, to April 13, 2015, the date we settled the net exercise of the option and received shares of SCA common stock.

During the second and third quarter of 2015, we sold all of our shares of SCA common stock resulting in a realized gain of $1.2 million that is included in *Other income* in our consolidated statements of operations for the year ended December 31, 2015 . The fair value of the option and related adjustments were determined using a lattice model. Inputs into the model included the historical price volatility of SCA's common stock, the risk free interest rate, and probability factors for the timing of when the option will be exercisable.

In addition to assets and liabilities recorded at fair value on a recurring basis, we are also required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets. During the year ended December 31, 2015 , we did not record any gains or losses related to our nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as part of our continuing operations.

As a result of our consolidation of Fairlawn in 2014 and the remeasurement of our previously held equity interest at fair value, we recorded a $27.2 million gain as part of *Other income* during the year ended December 31, 2014. We determined the fair value of our previously held equity interest using the income approach. The income approach included the use of Fairlawn's projected operating results and cash flows discounted using a rate that reflects market participant assumptions. The projected operating results used management's best estimates of economic and market conditions over the forecasted period including assumptions for pricing and volume, operating expenses, and capital expenditures. See Note 2, *Business Combinations* .

As discussed in Note 1, *Summary of Significant Accounting Policies* , "Fair Value Measurements," the carrying value equals fair value for our financial instruments that are not included in the table below and are classified as current in our consolidated balance sheets. The carrying amounts and estimated fair values for our other financial instruments are presented in the following table (in millions):

| | As of December 31, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Estimated Fair Value** | **Carrying Amount** | **Estimated Fair Value** |
| Long-term debt: | | | | |
| Advances under revolving credit facility | $ 130.0 | $ 130.0 | $ 325.0 | $ 325.0 |
| Term loan facilities | 443.3 | 445.0 | 447.5 | 450.0 |
| 8.125% Senior Notes due 2020 | — | — | 282.7 | 302.5 |
| 7.75% Senior Notes due 2022 | 174.3 | 183.7 | 223.7 | 240.7 |
| 5.125% Senior Notes due 2023 | 294.6 | 288.0 | — | — |
| 5.75% Senior Notes due 2024 | 1,192.6 | 1,146.0 | 447.4 | 471.4 |
| 5.75% Senior Notes due 2025 | 343.4 | 332.5 | — | — |
| 2.00% Convertible Senior Subordinated Notes due 2043 | 265.9 | 345.0 | 256.7 | 358.4 |
| Other notes payable | 39.2 | 39.2 | 41.5 | 41.5 |
| Financial commitments: | | | | |
| Letters of credit | — | 34.2 | — | 31.8 |

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or *Level 2* inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies* , "Fair Value Measurements."

See also Note 11, *Redeemable Noncontrolling Interests* .

**13. Share-Based Payments :**

The Company has awarded employee stock-based compensation in the form of stock options, SARs, and restricted stock awards under the terms of share-based incentive plans designed to align employee and executive interests to those of its stockholders. Excluding SARs issued in 2014, all employee stock-based compensation awarded in 2015, 2014, and 2013 was issued under the Amended and Restated 2008 Equity Incentive Plan, a stockholder-approved plan that reserves and provides for the grant of up to nine million shares of common stock. This plan allows the grants of nonqualified stock options, incentive stock options, restricted stock, stock appreciation rights, performance shares, performance share units, dividend equivalents, restricted stock units (“RSUs”), and/or other stock-based awards.

*Stock Options—*

Under our share-based incentive plans, officers and employees are given the right to purchase shares of HealthSouth common stock at a fixed grant price determined on the day the options are granted. The terms and conditions of the options, including exercise prices and the periods in which options are exercisable, are generally at the discretion of the compensation committee of our board of directors. However, no options are exercisable beyond ten years from the date of grant. Granted options vest over the awards’ requisite service periods, which are generally three years.

The fair values of the options granted during the years ended December 31, 2015 , 2014 , and 2013 have been estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Expected volatility | 39.5% | 40.3% | 41.8% |
| Risk-free interest rate | 1.9% | 2.2% | 1.4% |
| Expected life (years) | 7.7 | 7.2 | 7.2 |
| Dividend yield | 2.1% | 2.1% | 0.0% |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected stock price volatility. We estimate our expected term through an analysis of actual, historical post-vesting exercise, cancellation, and expiration behavior by our employees and projected post-vesting activity of outstanding options. We calculate volatility based on the historical volatility of our common stock over the period commensurate with the expected life of the options. The risk-free interest rate is the implied daily yield currently available on U.S. Treasury issues with a remaining term closely approximating the expected term used as the input to the Black-Scholes option-pricing model. While our board of directors initiated quarterly cash dividends on our common stock in 2013 (see Note 16, *Earnings per Common Share* ), we did not include a dividend payment as part of our pricing model in 2013 because we had not historically paid dividends at the time of our option grants. In 2015 and 2014, we estimated our dividend yield based on our annual dividend rate and our stock price on the dividend payment dates. We estimate forfeitures through an analysis of actual, historical pre-vesting option forfeiture activity. Under the Black-Scholes option-pricing model, the weighted-average fair value per share of employee stock options granted during the years ended December 31, 2015 , 2014 , and 2013 was $15.11 , $11.41 , and $10.96 , respectively.

A summary of our stock option activity and related information is as follows:

| | Shares (In Thousands) | Weighted- Average Exercise Price per Share | Weighted- Average Remaining Life (Years) | Aggregate Intrinsic Value (In Millions) |
|---|---|---|---|---|
| Outstanding, December 31, 2014 | 2,207 | $ 20.85 | | |
| Granted | 108 | 43.14 | | |
| Exercised | (257) | 26.06 | | |
| Forfeitures | (2) | 24.85 | | |
| Expirations | — | — | | |
| Outstanding, December 31, 2015 | 2,056 | 21.37 | 4.1 | $ 28.5 |
| Exercisable, December 31, 2015 | 1,811 | 19.47 | 3.5 | 27.8 |

We recognized approximatel y $1.6 million , $1.9 million , and $2.1 million of compensation expense related to our stock options for the years ended December 31, 2015 , 2014 , and 2013 , respectively. As of December 31, 2015 , there was $1.8 million o f unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 21 months. The total intrinsic value of options exercised during the years ended December 31, 2015 , 2014 , and 2013 was $4.2 million , $2.4 million , and $1.9 million , respectively.

*Stock Appreciation Rights—*

In conjunction with the Encompass acquisition, we granted SARs based on Holdings' common stock to certain members of Encompass management at closing on December 31, 2014. Under a separate plan, we granted 122,976 SARs that vest based on continued employment and an additional 129,124 SARs that vest based on continued employment and the extent of Encompass' attainment of a target 2017 specified performance measure. In general terms, half of the SARs of each type will vest on December 31, 2018 with the remainder vesting on December 31, 2019. The SARs that ultimately vest will expire on the tenth anniversary of the grant date or within a specified period following any earlier termination of employment. Upon exercise, each SAR must be settled for cash in the amount by which the per share fair value of Holdings' common stock on the exercise date exceeds the agreed upon per share fair value on the acquisition date. The fair value of Holdings' common stock is determined using the product of the trailing 12-month specified performance measure for Holdings and a specified median market price multiple based on a basket of public home health companies.

The fair values of the SARs granted in conjunction with the Encompass acquisition have been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions: an expected volatility of 30.7% , risk-free interest rate of 2.1% , and an expected life of 6.3 years. We did not include a dividend payment as part of our pricing model because Holdings currently does not pay dividends on their common stock.

Under the Black-Scholes option-pricing model, the weighted-average fair value per share of SARs granted in conjunction with the Encompass acquisition was $64.09 .

We recognized approximately $3.5 million of compensation expense related to our SARs for the year ended December 31, 2015 . As of December 31, 2015 , there was $12.2 million of unrecognized compensation cost related to unvested SARs. This cost is expected to be recognized over a weighted-average period of 6.25 years. As of December 31, 2015 , 252,100 SARs were outstanding.

*Restricted Stock—*

The restricted stock awards granted in 2015 , 2014 , and 2013 included service-based awards, performance-based awards (that also included a service requirement), and market condition awards (that also included a service requirement). These awards generally vest over a three-year requisite service period. For awards with a service and/or performance requirement, the fair value of the award is determined by the closing price of our common stock on the grant date. For awards with a market condition, the fair value of the awards is determined using a lattice model. Inputs into the model include the

historical price volatility of our common stock, the historical volatility of the common stock of the companies in the defined peer group, and the risk-free interest rate. Utilizing these inputs and potential future changes in stock prices, multiple trials are run to determine the fair value.

A summary of our issued restricted stock awards is as follows (share information in thousands):

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Nonvested shares at December 31, 2014 | 1,197 | $ 23.31 |
| Granted | 689 | 27.86 |
| Vested | (1,005) | 22.18 |
| Forfeited | (39) | 30.03 |
| Nonvested shares at December 31, 2015 | 842 | 28.05 |

The weighted-average grant date fair value of restricted stock granted during the years ended December 31, 2014 and 2013 was $23.94 and $23.55 per share, respectively. We recognized approximate ly $19.5 million , $20.8 million , and $21.6 million of compensation expense related to our restricted stock awards for the years ended December 31, 2015 , 2014 , and 2013 , respectively. As of December 31, 2015 , there was $16.2 million of unrecognized compensation expense related to unvested restricted stock. This cost is expected to be recognized over a weighted-average period of 21 months. T he remaining unrecognized compensation expense for the performance-based awards may vary each reporting period based on changes in the expected achievement of performance measures. The total fair value of shares vested during the years ended December 31, 2015 , 2014 , and 2013 wa s $41.0 million , $25.9 million , and $15.7 million , respectively.

*Nonemployee Stock-Based Compensation Plans—*

During the years ended December 31, 2015 , 2014 , and 2013 , we provided incentives to our nonemployee members of our board of directors through the issuance of RSUs out of our share-based incentive plans. RSUs are fully vested when awarded and receive dividend equivalents in the form of additional RSUs upon the payment of a cash dividend on our common stock. During the years ended December 31, 2015 , 2014 , and 2013 , we issued 30,744 , 36,350 , and 51,180 RSUs, respectively, with a fair value of $42.46 , $33.02 , and $22.47 , respectively, per unit. We recognized approximately $1.3 million , $1.2 million , and $1.2 million , respectively, of compensation expense upon their issuance in 2015 , 2014 , and 2013 . There was no unrecognized compensation related to unvested shares as of December 31, 2015 . During the years ended Decemb er 31, 2015, 2014, and 2013, we issued an a dditional 7,645 , 8,149 , and 1,831 , respectively, of RSUs as dividend equivalents. As of December 31, 2015 , 391,855 RSUs were ou tstanding.

**14. Employee Benefit Plans :**

Substantially all HealthSouth hospital employees are eligible to enroll in HealthSouth-sponsored healthcare plans, including coverage for medical and dental benefits. Our primary healthcare plans are national plans administered by third-party administrators. We are self-insured for these plans. During 2015 , 2014 , and 2013 , costs associated with these plans, net of amounts paid by employees, approximated $109.3 million , $85.2 million , and $73.4 million , respectively.

The HealthSouth Retirement Investment Plan is a qualified 401(k) savings plan. The plan allows eligible employees to contribute up to 100% of their pay on a pre-tax basis into their individual retirement account in the plan subject to the normal maximum limits set annually by the Internal Revenue Service. HealthSouth's employer matching contribution is 50% of the first 6% of each participant's elective deferrals . All contributions to the plan are in the form of cash. Employees who are at least 21 years of age are eligible to participate in the plan. Employer contributions vest 100% after three years of service. Participants are always fully vested in their own contributions.

Employer contributions to the HealthSouth Retirement Investment Plan approximated $15.0 million , $13.9 million , and $13.2 million in 2015 , 2014 , and 2013 , respectively. In 2015 , 2014 , and 2013 , approximately $0.9 million , $0.5 million ,

and $0.5 million , respectively, from the plan's forfeiture account were used to fund the matching contributions in accordance with the terms of the plan.

*Senior Management Bonus Program—*

We maintain a Senior Management Bonus Program to reward senior management for performance based on a combination of corporate or regional goals and individual goals. The corporate and regional goals are approved on an annual basis by our board of directors as part of our routine budgeting and financial planning process. The individual goals, which are weighted according to importance, are determined between each participant and his or her immediate supervisor. The program applies to persons who join the Company in, or are promoted to, senior management positions. In 2016 , we expect to pay approximately $9.1 million under the program for the year ended December 31, 2015 . In February 2015 and 2014 , we paid $9.0 million and $11.5 million , respectively, under the program for the years ended December 31, 2014 and 2013 .

## 15. Income Taxes :

The significant components of the *Provision for income tax expense* related to continuing operations are as follows (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Current: | | | |
| Federal | $ 2.6 | $ 2.5 | $ 0.9 |
| State and other | 12.2 | 10.8 | 5.4 |
| Total current expense | 14.8 | 13.3 | 6.3 |
| Deferred: | | | |
| Federal | 113.9 | 95.3 | 11.3 |
| State and other | 13.2 | 2.1 | (4.9) |
| Total deferred expense | 127.1 | 97.4 | 6.4 |
| Total income tax expense related to continuing operations | $ 141.9 | $ 110.7 | $ 12.7 |

A reconciliation of differences between the federal income tax at statutory rates and our actual income tax expense on our income from continuing operations, which include federal, state, and other income taxes, is presented below:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Tax expense at statutory rate | 35.0 % | 35.0 % | 35.0 % |
| Increase (decrease) in tax rate resulting from: | | | |
| State and other income taxes, net of federal tax benefit | 3.6 % | 4.3 % | 4.0 % |
| Increase (decrease) in valuation allowance | 1.2 % | (1.9)% | (2.3)% |
| Settlement of tax claims | 0.1 % | — % | (28.7)% |
| Noncontrolling interests | (5.3)% | (5.1)% | (5.1)% |
| Acquisition of additional equity interest in Fairlawn | — % | (3.6)% | — % |
| Other, net | 1.3 % | (0.1)% | 0.3 % |
| Income tax expense | 35.9 % | 28.6 % | 3.2 % |

The *Provision for income tax expense* in 2015 was greater than the federal statutory rate primarily due to: 1) state and other income tax expense and (2) an increase in our valuation allowance offset by (3) the impact of noncontrolling interests. See Note 1, *Summary of Significant Accounting Policies* , "Income Taxes," for a discussion of the allocation of income or loss

related to pass-through entities, which is referred to as the impact of noncontrolling interests in this discussion. The increase in our valuation allowance in 2015 related primarily to changes to our state apportionment percentages resulting from the acquisitions of Encompass, Reliant, and CareSouth and changes to our current forecast of earnings in each jurisdiction.

The *Provision for income tax expense* in 2014 was less than the federal statutory rate primarily due to: (1) the impact of noncontrolling interests, (2) the nontaxable gain discussed in Note 2, *Business Combinations* , related to our acquisition of an additional 30% equity interest in Fairlawn, and (3) a decrease in our valuation allowance offset by (4) state and other income tax expense. As a result of the Fairlawn transaction, we released the deferred tax liability associated with the outside tax basis of our investment in Fairlawn because we now possess sufficient ownership to allow for the historical outside tax basis difference to be resolved through a tax-free transaction in the future.

The *Provision for income tax expense* in 2013 was less than the federal statutory rate primarily due to: (1) the IRS settlement discussed below, (2) the impact of noncontrolling interests, and (3) a decrease in our valuation allowance, as discussed below, offset by (4) state and other income tax expense.

In April 2013, we entered into closing agreements with the IRS that settled federal income tax matters related to the previous restatement of our 2000 and 2001 financial statements, as well as certain other tax matters, through December 31, 2008. As a result of these closing agreements, we increased our deferred tax assets, primarily our federal net operating loss carryforward (“NOL”), and recorded a net federal income tax benefit of approximately $115 million in the second quarter of 2013. This federal income tax benefit primarily resulted from an approximate $283 million increase to our federal NOL on a gross basis.

Deferred income taxes recognize the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available NOLs. The significant components of HealthSouth's deferred tax assets and liabilities are presented in the following table (in millions):

| | As of December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Deferred income tax assets: | | |
| Net operating loss | $ 161.1 | $ 301.3 |
| Property, net | 48.2 | 40.7 |
| Insurance reserve | 26.0 | 25.6 |
| Stock-based compensation | 23.4 | 23.7 |
| Allowance for doubtful accounts | 24.5 | 18.0 |
| Alternative minimum tax | 10.6 | 10.5 |
| Carrying value of partnerships | 22.1 | 23.8 |
| Other accruals | 25.7 | 20.6 |
| Tax credits | 14.0 | 9.9 |
| Noncontrolling interest | 10.6 | — |
| Other | 0.8 | 1.6 |
| Total deferred income tax assets | 367.0 | 475.7 |
| Less: Valuation allowance | (27.6) | (23.0) |
| Net deferred income tax assets | 339.4 | 452.7 |
| Deferred income tax liabilities: | | |
| Intangibles | (112.8) | (97.5) |
| Convertible debt interest | (35.3) | (31.7) |
| Other | (0.5) | (5.7) |
| Total deferred income tax liabilities | (148.6) | (134.9) |
| Net deferred income tax assets | 190.8 | 317.8 |
| Less: Current deferred tax assets | — | 188.4 |
| Noncurrent deferred tax assets | $ 190.8 | $ 129.4 |

In the consolidated statements of shareholders' equity, the fair value adjustments to redeemable noncontrolling interests have been reported net of tax for each period presented. The amount of tax (benefit) expense allocated to *Capital in excess of par value* was ($11.7) million , ($1.8) million , and $2.9 million for the years ended December 31, 2015, 2014, and 2013, respectively.

At December 31, 2015 , we had an unused federal NOL of $91.6 million (approximately $261.6 million on a gross basis) and state NOLs of $69.5 million . Such losses expire in various amounts at varying times through 2031 . Our reported federal NOL as of December 31, 2015 excludes $14.6 million related to operating loss carryforwards resulting from excess tax benefits related to share-based awards, the tax benefits of which, when recognized, will be accounted for as a credit to additional paid-in-capital when they reduce taxes payable. At December 31, 2015, we had unused federal tax credit carryforwards of $14.0 million . These credit carryforwards expire in various amounts at various times through 2035.

For the years ended December 31, 2015 , 2014 , and 2013 , the net changes in our valuation allowance were $4.6 million , ($7.7) million , and ($9.1) million , respectively. The increase in our valuation allowance in 2015 related primarily to changes to our state apportionment percentages resulting from the acquisitions of Encompass, Reliant, and CareSouth and changes to our current forecast of earnings in each jurisdiction. The decrease in our valuation allowance in 2014 related primarily to the expiration of state NOLs in certain jurisdictions, our current forecast of future earnings in each jurisdiction, and

changes in certain state tax laws. The decrease in our valuation allowance in 2013 related primarily to our capital loss carryforwards, our then current forecast of future earnings in each jurisdiction, and changes in certain state tax laws. During the second quarter of 2013, we determined a valuation allowance related to our capital loss carryforwards was no longer required as sufficient positive evidence existed to substantiate their utilization. This evidence included our partial utilization of these assets as a result of realizing capital gains in 2013 and the identification of sufficient taxable capital gain income within the available capital loss carryforward period.

As of December 31, 2015 , we have a remaining valuation allowance of $27.6 million . This valuation allowance remains recorded due to uncertainties regarding our ability to utilize a portion of our state NOLs and other credits before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable. It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdictions, or if the timing of future tax deductions our credit utilizations differs from our expectations.

As of January 1, 2013 , total remaining gross unrecognized tax benefits were $78.0 million , $76.0 million of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits changed during 2013 primarily due to the April 2013 IRS settlement discussed above. Total remaining gross unrecognized tax benefits were $1.1 million as of December 31, 2013, $0.4 million of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits did not change significantly during 2014. Total remaining gross unrecognized tax benefits were $0.9 million as of December 31, 2014, all of which would have affected our effective tax rate if recognized. The amount of unrecognized tax benefits did not change significantly during 2015. Total remaining gross unrecognized tax benefits were $2.9 million as of December 31, 2015, all of which would affect our effective tax rate if recognized.

A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows (in millions):

| | Gross Unrecognized Income Tax Benefits | Accrued Interest and Penalties |
|---|---|---|
| **January 1, 2013** | $ 78.0 | $ — |
| Gross amount of increases in unrecognized tax benefits related to prior periods | 46.7 | 0.3 |
| Gross amount of decreases in unrecognized tax benefits related to prior periods | (1.9) | — |
| Decreases in unrecognized tax benefits relating to settlements with taxing authorities | (121.7) | — |
| **December 31, 2013** | 1.1 | 0.3 |
| Gross amount of increases in unrecognized tax benefits related to prior periods | 0.7 | 0.1 |
| Gross amount of decreases in unrecognized tax benefits related to prior periods | (0.9) | (0.4) |
| **December 31, 2014** | 0.9 | — |
| Gross amount of increases in unrecognized tax benefits related to prior periods | 1.7 | — |
| Gross amount of increases in unrecognized tax benefits related to current period | 0.3 | — |
| **December 31, 2015** | $ 2.9 | $ — |

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest recorded as part of our income tax provision during 2015, 2014, and 2013 was not material. Accrued interest income related to income taxes as of December 31, 2015 and 2014 was not material.

In December 2014, we signed an agreement with the IRS to begin participating in their Compliance Assurance Process, a program in which we and the IRS endeavor to agree on the treatment of significant tax positions prior to the filing of our federal income tax return. We renewed this agreement in December 2015 for the 2016 tax year. As a result of this agreement, the IRS surveyed our 2013, 2012, and 2011 federal income tax returns and will examine our 2015 and 2016 returns when filed. Our 2014 federal income tax return has been filed, and the IRS has not indicated its intent to examine or survey this

return. The IRS is also separately examining the 2013 return of one of our partnership affiliates acquired in the CareSouth transaction. We have settled federal income tax examinations with the IRS for all tax years through 2010. Our state income tax returns are also periodically examined by various regulatory taxing authorities. We are currently under audit by seven states for tax years ranging from 2007 through 2014.

For the tax years that remain open under the applicable statutes of limitations, amounts related to these unrecognized tax benefits have been considered by management in its estimate of our potential net recovery of prior years' income taxes. Based on discussions with taxing authorities, we anticipate \$0.5 million to \$2.9 million of our unrecognized tax benefits may be released within the next 12 months.

See also Note 1, *Summary of Significant Accounting Policies* , "Recent Accounting Pronouncements."

**16. Earnings per Common Share :**

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Basic:** | | | |
| *Numerator:* | | | |
| Income from continuing operations | $ 253.7 | $ 276.2 | $ 382.5 |
| Less: Net income attributable to noncontrolling interests included in continuing operations | (69.7) | (59.7) | (57.8) |
| Less: Income allocated to participating securities | (1.0) | (2.3) | (3.4) |
| Less: Convertible perpetual preferred stock dividends | (1.6) | (6.3) | (21.0) |
| Less: Repurchase of convertible perpetual preferred stock | — | — | (71.6) |
| Income from continuing operations attributable to HealthSouth common shareholders | 181.4 | 207.9 | 228.7 |
| (Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders | (0.9) | 5.5 | (1.1) |
| Less: Income from discontinued operations allocated to participating securities | — | (0.1) | — |
| Net income attributable to HealthSouth common shareholders | $ 180.5 | $ 213.3 | $ 227.6 |
| *Denominator:* | | | |
| Basic weighted average common shares outstanding | 89.4 | 86.8 | 88.1 |
| *Basic earnings per share attributable to HealthSouth common shareholders:* | | | |
| Continuing operations | $ 2.03 | $ 2.40 | $ 2.59 |
| Discontinued operations | (0.01) | 0.06 | (0.01) |
| Net income | $ 2.02 | $ 2.46 | $ 2.58 |
| | | | |
| **Diluted:** | | | |
| *Numerator:* | | | |
| Income from continuing operations | $ 253.7 | $ 276.2 | $ 382.5 |
| Less: Net income attributable to noncontrolling interests included in continuing operations | (69.7) | (59.7) | (57.8) |
| Add: Interest on convertible debt, net of tax | 9.4 | 9.0 | 1.0 |
| Income from continuing operations attributable to HealthSouth common shareholders | 193.4 | 225.5 | 325.7 |
| (Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders | (0.9) | 5.5 | (1.1) |
| Net income attributable to HealthSouth common shareholders | $ 192.5 | $ 231.0 | $ 324.6 |
| *Denominator:* | | | |
| Diluted weighted average common shares outstanding | 101.0 | 100.7 | 102.1 |
| *Diluted earnings per share attributable to HealthSouth common shareholders:* | | | |
| Continuing operations | $ 1.92 | $ 2.24 | $ 2.59 |
| Discontinued operations | (0.01) | 0.05 | (0.01) |
| Net income | $ 1.91 | $ 2.29 | $ 2.58 |

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Basic weighted average common shares outstanding | 89.4 | 86.8 | 88.1 |
| Convertible perpetual preferred stock | 1.0 | 3.2 | 10.5 |
| Convertible senior subordinated notes | 8.3 | 8.2 | 1.0 |
| Restricted stock awards, dilutive stock options, and restricted stock units | 2.3 | 2.5 | 2.5 |
| Diluted weighted average common shares outstanding | 101.0 | 100.7 | 102.1 |

For the year ended December 31, 2013, adding back amounts related to the repurchase of our preferred stock to our *Income from continuing operations attributable to HealthSouth common shareholders* causes a per share increase when calculating diluted earnings per common share resulting in an antidilutive per share amount. See Note 10, *Convertible Perpetual Preferred Stock* . Therefore, basic and diluted earnings per common share is the same for the year ended December 31, 2013.

Options to purchase approximately 0.1 million shares of common stock were outstanding as of December 31, 2015 and 2014 but were not included in the computation of diluted weighted-average shares because to do so would have been antidilutive.

In February 2013, our board of directors approved an increase in our existing common stock repurchase authorization from $125 million (authorized in October 2011) to $350 million . During the first quarter of 2013, we completed a tender offer for our common stock. As a result of the tender offer, we purchased 9.1 million shares at a price of $25.50 per share for a total cost of $234.1 million , including fees and expenses relating to the tender offer. The remaining repurchase authorization expired at the end of the tender offer.

In October 2013, our board of directors authorized the repurchase of up to $200 million of our common stock. In February 2014, our board of directors approved an increase in this common stock repurchase authorization from $200 million to $250 million . The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. During 2015 and 2014, we repurchased 1.3 million and 1.3 million shares of our common stock in the open market for $45.3 million and $43.1 million , respectively.

In July 2013, our board of directors approved the initiation of a quarterly cash dividend of $0.18 per share on our common stock. The first quarterly dividend was declared in July 2013 and paid in October 2013. This $0.18 per share cash dividend on our common stock was declared and paid each quarter through July 2014. In July 2014, our board of directors approved an increase in the quarterly cash dividend on our common stock and declared a dividend of $0.21 per share. The cash dividend of $0.21 per common share was declared and paid each quarter through July 2015. In July 2015, our board of directors approved an increase in the quarterly cash dividend and declared a dividend of $0.23 per share. The cash dividend of $0.23 per common share was declared in July 2015 and October 2015 and paid in October 2015 and January 2016. As of December 31, 2015 and 2014, accrued common stock dividends of $21.3 million and $18.6 million were included in *Other current liabilities* in our consolidated balance sheet. Future dividend payments are subject to declaration by our board of directors.

In January 2004, we repaid our then-outstanding 3.25% Convertible Debentures using the net proceeds of a loan arranged by Credit Suisse First Boston. In connection with this transaction, we issued ten million warrants with an expiration date of January 16, 2014 to the lender to purchase shares of our common stock. The agreement underlying these warrants included antidilutive protection that required adjustments to the number of shares of common stock purchasable upon exercise and the exercise price for common stock upon the occurrence of certain events. Following our one-for-five reverse stock split in October 2006, the warrants were exercisable for two million shares of our common stock at an exercise price of $32.50 . This antidilution protection also provided for adjustment upon payment of cash dividends on our common stock after a *de minimis* threshold. The payment in January 2014 of an $0.18 per share dividend on our common stock triggered the antidilutive adjustment for these warrants. When these warrants expired in January 2014, the resulting exercise price of each warrant was

$32.16 , and the resulting exercise rate was 0.2021 for each warrant. The warrants were not assumed exercised for dilutive shares outstanding for the year ended December 31, 2012 because they were antidilutive in that period.

The following table summarizes information relating to these warrants and their activity during 2013 and through their expiration date (number of warrants in millions):

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| **Common stock warrants outstanding as of December 31, 2012** | 10.0 | $ 32.50 |
| Cashless exercise | (4.8) | 32.50 |
| Cash exercise | (2.3) | 32.50 |
| **Common stock warrants outstanding as of December 31, 2013** | 2.9 | 32.50 |
| Cashless exercise | (1.8) | 32.16 |
| Cash exercise | (1.0) | 32.16 |
| Expired | (0.1) | 32.16 |
| **Common stock warrants outstanding as of January 16, 2014** | — | |

The above exercises resulted in the issuance of 0.5 million and 0.2 million shares of common stock in 2013 and 2014, respectively. Cash exercises resulted in gross proceeds of $15.3 million and $6.3 million during 2013 and 2014, respectively.

On September 30, 2009, we issued 5.0 million shares of common stock and 8.2 million common stock warrants in full satisfaction of our obligation to do so under the January 2007 comprehensive settlement of the consolidated securities action brought against us by our stockholders and bondholders. Each warrant has a term of approximately seven years from the date of issuance and an exercise price of $41.40 per share. The warrants were not assumed exercised for dilutive shares outstanding because they were antidilutive in the periods presented.

See also Note 8, *Long-term Debt* , and Note 10, *Convertible Perpetual Preferred Stock* .

## 17. Contingencies and Other Commitments :

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

*General Medicine Action—*

On August 16, 2004, General Medicine, P.C. filed a lawsuit in the Circuit Court of Jefferson County, Alabama (the "Alabama Action") against us captioned *General Medicine, P.C. v. HealthSouth Corp.* seeking the recovery of allegedly fraudulent transfers involving assets of Horizon/CMS Healthcare Corporation, a former subsidiary of HealthSouth.

General Medicine's underlying claim against Horizon/CMS originates from a services contract entered into in 1995 between General Medicine and Horizon/CMS whereby General Medicine agreed to provide medical director services to skilled nursing facilities owned by Horizon/CMS for a term of three years . Horizon/CMS terminated the agreement for cause six months after it was executed, and General Medicine then initiated a lawsuit against Horizon/CMS in the United States District Court for the Eastern District of Michigan in 1996 (the "Michigan Action"). General Medicine's complaint in the Michigan Action alleged that Horizon/CMS breached the services contract by wrongfully terminating General Medicine. We acquired Horizon/CMS in 1997 and sold it to Meadowbrook Healthcare, Inc. in 2001 pursuant to a stock purchase agreement. In 2004, Meadowbrook, without the knowledge of HealthSouth, consented to the entry of a final judgment in the Michigan Action in favor of General Medicine against Horizon/CMS for the alleged wrongful termination of the contract with General Medicine in the amount of $376 million (the "Consent Judgment"). The $376 million damages figure was unilaterally selected by General Medicine and was not tested or opposed by Meadowbrook. Additionally, the settlement agreement (the "Settlement") used as the basis for the Consent Judgment provided that Meadowbrook would pay only $300,000 to General Medicine to settle the

Michigan Action and that General Medicine would seek to recover the remaining balance of the Consent Judgment solely from us. We were not a party to the Michigan Action, the Settlement negotiated by Meadowbrook, or the Consent Judgment.

The complaint filed by General Medicine against us in the Alabama Action alleged that while Horizon/CMS was our wholly owned subsidiary, General Medicine was an existing creditor of Horizon/CMS by virtue of the breach of contract claim underlying the Settlement. The complaint also alleged we caused Horizon/CMS to transfer its assets to us for less than a reasonably equivalent value or, in the alternative, with the actual intent to defraud creditors of Horizon/CMS, including General Medicine, in violation of the Alabama Uniform Fraudulent Transfer Act. General Medicine further alleged in its amended complaint that we were liable for the Consent Judgment despite not being a party to it because as Horizon/CMS's parent we failed to observe corporate formalities in our operation and ownership of Horizon/CMS, misused our control of Horizon/CMS, stripped assets from Horizon/CMS, and engaged in other conduct which amounted to a fraud on Horizon/CMS's creditors. General Medicine requested relief including recovery of the unpaid amount of the Consent Judgment, the avoidance of the subject transfers of assets, attachment of the assets transferred to us, appointment of a receiver over the transferred properties, and a monetary judgment for the value of properties transferred.

We denied liability to General Medicine and asserted defenses and a counterclaim against General Medicine that the Consent Judgment was the product of collusion by General Medicine and Meadowbrook. Consequently, we asserted that the Consent Judgment was not evidence of a legitimate debt owed by Horizon/CMS to General Medicine that was collectible from HealthSouth under any theory of liability.

The trial in the Alabama Action began on March 9, 2015. On March 22, 2015, we entered into an agreement with General Medicine to settle the Alabama Action . Although the specific terms of this settlement agreement are confidential, both parties agreed to dismiss with prejudice the lawsuit pending in the Circuit Court of Jefferson County, Alabama and to release all claims between the parties. In exchange for General Medicine's release, we agreed to pay an amount of cash that is not material.

*Other Litigation—*

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

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

*Governmental Inquiries and Investigations—*

On June 24, 2011, we received a document subpoena addressed to HealthSouth Hospital of Houston, a long-term acute care hospital ("LTCH") we closed in August 2011, and issued from the Dallas, Texas office of the HHS-OIG. The subpoena stated it was in connection with an investigation of possible false or otherwise improper claims submitted to Medicare and

Medicaid and requested documents and materials relating to patient admissions, length of stay, and discharge matters at this closed LTCH. We furnished the documents requested and have heard nothing from the HHS-OIG since December 2012.

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

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

We are cooperating fully with the DOJ in connection with these subpoenas and are currently unable to predict the timing or outcome of the related investigations.

*Other Matters—*

The False Claims Act, 18 U.S.C. § 287, allows private citizens, called “relators,” to institute civil proceedings alleging violations of the False Claims Act. These *qui tam* cases are sealed by the court at the time of filing. Prior to the release of the seal by the presiding court, the only parties typically privy to the information contained in the complaint are the relator, the federal government, and the court. It is possible that *qui tam* lawsuits have been filed against us and that those suits remain under seal or that we are unaware of such filings or prevented by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed *qui tam* cases brought pursuant to the False Claims Act.

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

*Other Commitments—*

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are $33.3 million in 2016 , $28.2 million in 2017 , $21.1 million in 2018 , $12.6 million in 2019 , $11.9 million in 2020 , and $7.2 million thereafter. These contracts primarily relate to software licensing and support.

**18. Segment Reporting** :

As described in Note 2, *Business Combinations* , we completed the acquisition of Encompass on December 31, 2014. As a result of this transaction, in the first quarter of 2015, management changed the way it manages and operates the consolidated reporting entity and modified the reports used by our chief operating decision maker to assess performance and allocate resources. These changes required us to revise our segment reporting from our historic presentation of only one reportable segment.

Our internal financial reporting and management structure is focused on the major types of services provided by HealthSouth. Beginning in the first quarter of 2015, we manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. Prior period information has been adjusted to conform to the current period presentation. Specifically, HealthSouth's legacy 25 hospital-based home health agencies have been reclassified from our inpatient rehabilitation segment to our home health and hospice segment for all periods presented.

These reportable operating segments are consistent with information used by our chief executive officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

- *Inpatient Rehabilitation* - Our national network of inpatient rehabilitation hospitals stretches across 29 states and Puerto Rico, with a concentration of hospitals in the eastern half of the United States and Texas. As of December 31, 2015 , we operate 121 inpatient rehabilitation hospitals, including one hospital that operates as a joint venture which we account for using the equity method of accounting. In addition, we manage three inpatient rehabilitation units through management contracts. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. Our inpatient rehabilitation hospitals provide a higher level of rehabilitative care to patients who are recovering from conditions such as stroke and other neurological disorders, cardiac and pulmonary conditions, brain and spinal cord injuries, complex orthopedic conditions, and amputations.
- *Home Health and Hospice* - As of December 31, 2015 , we provide home health and hospice services in 213 locations across 23 states. In addition, two of these agencies operate as joint ventures which we account for using the equity method of accounting. Our home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. We also provide specialized home care services in Texas and Kansas for pediatric patients with severe medical conditions. Our hospice services primarily include in-home services to terminally ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support.

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

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

| | Inpatient Rehabilitation | | | Home Health and Hospice | | |
|---|---|---|---|---|---|---|
| | For the Year Ended December 31, | | | For the Year Ended December 31, | | |
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| **Net operating revenues** | $ 2,653.1 | $ 2,377.3 | $ 2,244.4 | $ 509.8 | $ 28.6 | $ 28.8 |
| Less: Provision for doubtful accounts | (44.7) | (31.2) | (25.6) | (2.5) | (0.4) | (0.4) |
| Net operating revenues less provision for doubtful accounts | 2,608.4 | 2,346.1 | 2,218.8 | 507.3 | 28.2 | 28.4 |
| Operating expenses: | | | | | | |
| Inpatient rehabilitation: | | | | | | |
| Salaries and benefits | 1,310.6 | 1,141.0 | 1,069.7 | — | — | — |
| Other operating expenses | 387.7 | 342.5 | 314.7 | — | — | — |
| Supplies | 120.9 | 111.5 | 105.2 | — | — | — |
| Occupancy costs | 46.2 | 41.2 | 46.5 | — | — | — |
| Home health and hospice: | | | | | | |
| Cost of services sold (excluding depreciation and amortization) | — | — | — | 244.8 | 17.0 | 16.7 |
| Support and overhead costs | — | — | — | 172.7 | 6.9 | 6.6 |
| | 1,865.4 | 1,636.2 | 1,536.1 | 417.5 | 23.9 | 23.3 |
| Other income | (2.3) | (4.0) | (4.5) | — | — | — |
| Equity in net income of nonconsolidated affiliates | (8.6) | (10.7) | (11.2) | (0.1) | — | — |
| Noncontrolling interests | 62.9 | 59.3 | 57.2 | 6.8 | 0.4 | 0.6 |
| **Segment Adjusted EBITDA** | $ 691.0 | $ 665.3 | $ 641.2 | $ 83.1 | $ 3.9 | $ 4.5 |
| | | | | | | |
| Capital expenditures | $ 151.7 | $ 187.9 | $ 216.5 | $ 5.8 | $ — | $ — |

| | Inpatient Rehabilitation | Home Health and Hospice | HealthSouth Consolidated |
|---|---|---|---|
| **As of December 31, 2015** | | | |
| Total assets | $ 3,589.0 | $ 1,088.4 | $ 4,606.1 |
| Investments in and advances to nonconsolidated affiliates | 9.3 | 2.4 | 11.7 |
| **As of December 31, 2014** | | | |
| Total assets | $ 2,576.3 | $ 876.3 | $ 3,388.3 |
| Investments in and advances to nonconsolidated affiliates | 9.4 | — | 9.4 |

Segment reconciliations (in millions):

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Total segment Adjusted EBITDA** | $ 774.1 | $ 669.2 | $ 645.7 |
| General and administrative expenses | (133.3) | (124.8) | (119.1) |
| Depreciation and amortization | (139.7) | (107.7) | (94.7) |
| Loss on disposal or impairment of assets | (2.6) | (6.7) | (5.9) |
| Government, class action, and related settlements | (7.5) | 1.7 | 23.5 |
| Professional fees - accounting, tax, and legal | (3.0) | (9.3) | (9.5) |
| Loss on early extinguishment of debt | (22.4) | (13.2) | (2.4) |
| Interest expense and amortization of debt discounts and fees | (142.9) | (109.2) | (100.4) |
| Gain on consolidation of former equity method hospital | — | 27.2 | — |
| Net income attributable to noncontrolling interests | 69.7 | 59.7 | 57.8 |
| Gain related to SCA equity interest | 3.2 | — | — |
| Other | — | — | 0.2 |
| **Income from continuing operations before income tax expense** | $ 395.6 | $ 386.9 | $ 395.2 |

| | As of December 31, 2015 | As of December 31, 2014 |
|---|---|---|
| **Total assets for reportable segments** | $ 4,677.4 | $ 3,452.6 |
| Reclassification of noncurrent deferred income tax liabilities to net noncurrent deferred income tax assets | (71.3) | (64.3) |
| **Total consolidated assets** | $ 4,606.1 | $ 3,388.3 |

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Inpatient rehabilitation: | | | |
| Inpatient | $ 2,547.2 | $ 2,272.5 | $ 2,130.8 |
| Outpatient and other | 105.9 | 104.8 | 113.6 |
| Total inpatient rehabilitation | 2,653.1 | 2,377.3 | 2,244.4 |
| Home health and hospice: | | | |
| Home health | 478.1 | 28.6 | 28.8 |
| Hospice | 31.7 | — | — |
| Total home health and hospice | 509.8 | 28.6 | 28.8 |
| **Total net operating revenues** | $ 3,162.9 | $ 2,405.9 | $ 2,273.2 |

**19. Quarterly Data (Unaudited) :**

| | 2015 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| | (In Millions, Except Per Share Data) | | | | |
| Net operating revenues | $ 740.6 | $ 764.4 | $ 778.6 | $ 879.3 | $ 3,162.9 |
| Operating earnings [(a)] | 105.6 | 123.4 | 121.2 | 135.5 | 485.7 |
| Provision for income tax expense | 30.3 | 32.2 | 35.9 | 43.5 | 141.9 |
| Income from continuing operations | 59.3 | 61.8 | 67.5 | 65.1 | 253.7 |
| (Loss) income from discontinued operations, net of tax | (0.3) | (1.6) | 0.3 | 0.7 | (0.9) |
| Net income | 59.0 | 60.2 | 67.8 | 65.8 | 252.8 |
| Less: Net income attributable to noncontrolling interests | (16.5) | (17.3) | (17.1) | (18.8) | (69.7) |
| Net income attributable to HealthSouth | $ 42.5 | $ 42.9 | $ 50.7 | $ 47.0 | $ 183.1 |
| **Earnings per common share:** | | | | | |
| **Basic earnings per share attributable to HealthSouth common shareholders: [(b)]** | | | | | |
| Continuing operations | $ 0.47 | $ 0.49 | $ 0.56 | $ 0.51 | $ 2.03 |
| Discontinued operations | — | (0.02) | — | 0.01 | (0.01) |
| Net income | $ 0.47 | $ 0.47 | $ 0.56 | $ 0.52 | $ 2.02 |
| **Diluted earnings per share attributable to HealthSouth common shareholders: [(b)]** | | | | | |
| Continuing operations | $ 0.44 | $ 0.47 | $ 0.52 | $ 0.48 | $ 1.92 |
| Discontinued operations | — | (0.02) | — | 0.01 | (0.01) |
| Net income | $ 0.44 | $ 0.45 | $ 0.52 | $ 0.49 | $ 1.91 |

(a) We define operating earnings as income from continuing operations attributable to HealthSouth before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense.

(b) Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

| | 2014 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| | (In Millions, Except Per Share Data) | | | | |
| Net operating revenues | $ 591.2 | $ 604.4 | $ 596.9 | $ 613.4 | $ 2,405.9 |
| Operating earnings [(a)] | 105.8 | 115.4 | 100.7 | 96.5 | 418.4 |
| Provision for income tax expense | 32.8 | 36.5 | 22.1 | 19.3 | 110.7 |
| Income from continuing operations | 61.6 | 94.1 | 65.7 | 54.8 | 276.2 |
| (Loss) income from discontinued operations, net of tax | (0.1) | 3.8 | (0.9) | 2.7 | 5.5 |
| Net income | 61.5 | 97.9 | 64.8 | 57.5 | 281.7 |
| Less: Net income attributable to noncontrolling interests | (14.8) | (14.8) | (14.7) | (15.4) | (59.7) |
| Net income attributable to HealthSouth | $ 46.7 | $ 83.1 | $ 50.1 | $ 42.1 | $ 222.0 |
| **Earnings per common share:** | | | | | |
| **Basic earnings per share attributable to HealthSouth common shareholders:** [(b)] | | | | | |
| Continuing operations | $ 0.51 | $ 0.89 | $ 0.56 | $ 0.43 | $ 2.40 |
| Discontinued operations | — | 0.04 | (0.01) | 0.03 | 0.06 |
| Net income | $ 0.51 | $ 0.93 | $ 0.55 | $ 0.46 | $ 2.46 |
| **Diluted earnings per share attributable to HealthSouth common shareholders:** | | | | | |
| Continuing operations | $ 0.48 | $ 0.81 | $ 0.53 | $ 0.41 | $ 2.24 |
| Discontinued operations | — | 0.04 | (0.01) | 0.03 | 0.05 |
| Net income | $ 0.48 | $ 0.85 | $ 0.52 | $ 0.44 | $ 2.29 |

(a) We define operating earnings as income from continuing operations attributable to HealthSouth before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense or benefit.

(b) Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

## 20. Condensed Consolidating Financial Information :

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

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement and (2) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 1.75 x. The terms of our senior note indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2 x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture’s restricted payments covenant to declare and pay dividends. See Note 8, *Long-term Debt* .

In the first quarter of 2015, we revised our condensed consolidating balance sheet as of December 31, 2014 to correct the classification of $51.4 million of net noncurrent deferred tax liabilities of our Nonguarantor Subsidiaries from noncurrent

*Deferred income tax assets* to *Other long-term liabilities* . The impact of this revision was to increase total assets and increase liabilities for Nonguarantor Subsidiaries, with an offset to Eliminating Entries. This revision was not material to the related financial statements as of and for the year ended December 31, 2014 and had no impact on our condensed consolidated balance sheet as of December 31, 2014.

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

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Operations**

| | For the Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | | | (In Millions) | | |
| Net operating revenues | $ 19.4 | $ 1,927.0 | $ 1,320.0 | $ (103.5) | $ 3,162.9 |
| Less: Provision for doubtful accounts | — | (34.6) | (12.6) | — | (47.2) |
| Net operating revenues less provision for doubtful accounts | 19.4 | 1,892.4 | 1,307.4 | (103.5) | 3,115.7 |
| Operating expenses: | | | | | |
| Salaries and benefits | 49.4 | 893.2 | 745.3 | (17.1) | 1,670.8 |
| Other operating expenses | 31.3 | 274.7 | 167.4 | (41.3) | 432.1 |
| Occupancy costs | 4.0 | 69.4 | 25.6 | (45.1) | 53.9 |
| Supplies | — | 85.2 | 43.5 | — | 128.7 |
| General and administrative expenses | 128.3 | — | 5.0 | — | 133.3 |
| Depreciation and amortization | 9.9 | 84.3 | 45.5 | — | 139.7 |
| Government, class action, and related settlements | 7.5 | — | — | — | 7.5 |
| Professional fees—accounting, tax, and legal | 3.0 | — | — | — | 3.0 |
| Total operating expenses | 233.4 | 1,406.8 | 1,032.3 | (103.5) | 2,569.0 |
| Loss on early extinguishment of debt | 22.4 | — | — | — | 22.4 |
| Interest expense and amortization of debt discounts and fees | 130.0 | 11.9 | 12.4 | (11.4) | 142.9 |
| Other income | (13.6) | (0.2) | (3.1) | 11.4 | (5.5) |
| Equity in net income of nonconsolidated affiliates | — | (8.5) | (0.2) | — | (8.7) |
| Equity in net income of consolidated affiliates | (322.7) | (34.5) | — | 357.2 | — |
| Management fees | (119.7) | 91.6 | 28.1 | — | — |
| Income from continuing operations before income tax (benefit) expense | 89.6 | 425.3 | 237.9 | (357.2) | 395.6 |
| Provision for income tax (benefit) expense | (94.6) | 169.7 | 66.8 | — | 141.9 |
| Income from continuing operations | 184.2 | 255.6 | 171.1 | (357.2) | 253.7 |
| (Loss) income from discontinued operations, net of tax | (1.1) | — | 0.2 | — | (0.9) |
| **Net income** | 183.1 | 255.6 | 171.3 | (357.2) | 252.8 |
| Less: Net income attributable to noncontrolling interests | — | — | (69.7) | — | (69.7) |
| **Net income attributable to HealthSouth** | $ 183.1 | $ 255.6 | $ 101.6 | $ (357.2) | $ 183.1 |
| **Comprehensive income** | $ 182.4 | $ 255.6 | $ 171.3 | $ (357.2) | $ 252.1 |
| **Comprehensive income attributable to HealthSouth** | $ 182.4 | $ 255.6 | $ 101.6 | $ (357.2) | $ 182.4 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Operations**

| | For the Year Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | | | (In Millions) | | |
| Net operating revenues | $ 16.1 | $ 1,719.1 | $ 761.1 | $ (90.4) | $ 2,405.9 |
| Less: Provision for doubtful accounts | — | (22.3) | (9.3) | — | (31.6) |
| Net operating revenues less provision for doubtful accounts | 16.1 | 1,696.8 | 751.8 | (90.4) | 2,374.3 |
| Operating expenses: | | | | | |
| Salaries and benefits | 22.3 | 795.7 | 358.8 | (15.1) | 1,161.7 |
| Other operating expenses | 21.6 | 246.7 | 120.1 | (36.8) | 351.6 |
| Occupancy costs | 4.2 | 58.2 | 17.7 | (38.5) | 41.6 |
| Supplies | — | 78.6 | 33.3 | — | 111.9 |
| General and administrative expenses | 124.8 | — | — | — | 124.8 |
| Depreciation and amortization | 9.7 | 71.9 | 26.1 | — | 107.7 |
| Government, class action, and related settlements | (1.7) | — | — | — | (1.7) |
| Professional fees—accounting, tax, and legal | 9.3 | — | — | — | 9.3 |
| Total operating expenses | 190.2 | 1,251.1 | 556.0 | (90.4) | 1,906.9 |
| Loss on early extinguishment of debt | 13.2 | — | — | — | 13.2 |
| Interest expense and amortization of debt discounts and fees | 99.8 | 7.8 | 2.8 | (1.2) | 109.2 |
| Other income | (0.7) | (28.5) | (3.2) | 1.2 | (31.2) |
| Equity in net income of nonconsolidated affiliates | — | (10.7) | — | — | (10.7) |
| Equity in net income of consolidated affiliates | (314.0) | (30.6) | — | 344.6 | — |
| Management fees | (107.9) | 82.2 | 25.7 | — | — |
| Income from continuing operations before income tax (benefit) expense | 135.5 | 425.5 | 170.5 | (344.6) | 386.9 |
| Provision for income tax (benefit) expense | (80.8) | 148.0 | 43.5 | — | 110.7 |
| Income from continuing operations | 216.3 | 277.5 | 127.0 | (344.6) | 276.2 |
| Income (loss) from discontinued operations, net of tax | 5.7 | — | (0.2) | — | 5.5 |
| **Net income** | 222.0 | 277.5 | 126.8 | (344.6) | 281.7 |
| Less: Net income attributable to noncontrolling interests | — | — | (59.7) | — | (59.7) |
| **Net income attributable to HealthSouth** | $ 222.0 | $ 277.5 | $ 67.1 | $ (344.6) | $ 222.0 |
| **Comprehensive income** | $ 221.6 | $ 277.5 | $ 126.8 | $ (344.6) | $ 281.3 |
| **Comprehensive income attributable to HealthSouth** | $ 221.6 | $ 277.5 | $ 67.1 | $ (344.6) | $ 221.6 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Operations**

| | For the Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | | | (In Millions) | | |
| Net operating revenues | $ 12.2 | $ 1,622.4 | $ 709.8 | $ (71.2) | $ 2,273.2 |
| Less: Provision for doubtful accounts | — | (18.3) | (7.7) | — | (26.0) |
| Net operating revenues less provision for doubtful accounts | 12.2 | 1,604.1 | 702.1 | (71.2) | 2,247.2 |
| Operating expenses: | | | | | |
| Salaries and benefits | 12.1 | 757.7 | 334.4 | (14.5) | 1,089.7 |
| Other operating expenses | 10.8 | 238.5 | 107.5 | (33.8) | 323.0 |
| Occupancy costs | 4.1 | 48.3 | 17.5 | (22.9) | 47.0 |
| Supplies | — | 73.8 | 31.6 | — | 105.4 |
| General and administrative expenses | 119.1 | — | — | — | 119.1 |
| Depreciation and amortization | 8.8 | 65.1 | 20.8 | — | 94.7 |
| Government, class action, and related settlements | (23.5) | — | — | — | (23.5) |
| Professional fees—accounting, tax, and legal | 9.5 | — | — | — | 9.5 |
| Total operating expenses | 140.9 | 1,183.4 | 511.8 | (71.2) | 1,764.9 |
| Loss on early extinguishment of debt | 2.4 | — | — | — | 2.4 |
| Interest expense and amortization of debt discounts and fees | 90.4 | 8.1 | 3.1 | (1.2) | 100.4 |
| Other income | (1.0) | (1.2) | (3.5) | 1.2 | (4.5) |
| Equity in net income of nonconsolidated affiliates | (3.6) | (7.5) | (0.1) | — | (11.2) |
| Equity in net income of consolidated affiliates | (268.0) | (20.6) | — | 288.6 | — |
| Management fees | (102.3) | 78.6 | 23.7 | — | — |
| Income from continuing operations before income tax (benefit) expense | 153.4 | 363.3 | 167.1 | (288.6) | 395.2 |
| Provision for income tax (benefit) expense | (169.0) | 134.4 | 47.3 | — | 12.7 |
| Income from continuing operations | 322.4 | 228.9 | 119.8 | (288.6) | 382.5 |
| Income (loss) from discontinued operations, net of tax | 1.2 | (0.8) | (1.5) | — | (1.1) |
| **Net income** | 323.6 | 228.1 | 118.3 | (288.6) | 381.4 |
| Less: Net income attributable to noncontrolling interests | — | — | (57.8) | — | (57.8) |
| **Net income attributable to HealthSouth** | $ 323.6 | $ 228.1 | $ 60.5 | $ (288.6) | $ 323.6 |
| **Comprehensive income** | $ 322.1 | $ 228.1 | $ 118.3 | $ (288.6) | $ 379.9 |
| **Comprehensive income attributable to HealthSouth** | $ 322.1 | $ 228.1 | $ 60.5 | $ (288.6) | $ 322.1 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Balance Sheet**

| | As of December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | (In Millions) | | | | |
| **Assets** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 41.2 | $ 1.3 | $ 19.1 | $ — | $ 61.6 |
| Restricted cash | — | — | 45.9 | — | 45.9 |
| Accounts receivable, net | — | 267.2 | 143.3 | — | 410.5 |
| Prepaid expenses and other current assets | 29.3 | 22.7 | 47.5 | (18.8) | 80.7 |
| Total current assets | 70.5 | 291.2 | 255.8 | (18.8) | 598.7 |
| Property and equipment, net | 14.5 | 965.7 | 329.9 | — | 1,310.1 |
| Goodwill | — | 863.2 | 1,026.9 | — | 1,890.1 |
| Intangible assets, net | 8.8 | 123.2 | 287.4 | — | 419.4 |
| Deferred income tax assets | 176.2 | 64.1 | — | (49.5) | 190.8 |
| Other long-term assets | 48.6 | 75.3 | 73.1 | — | 197.0 |
| Intercompany notes receivable | 546.6 | — | — | (546.6) | — |
| Intercompany receivable and investments in consolidated affiliates | 2,779.7 | — | — | (2,779.7) | — |
| **Total assets** | $ 3,644.9 | $ 2,382.7 | $ 1,973.1 | $ (3,394.6) | $ 4,606.1 |
| **Liabilities and Shareholders' Equity** | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term debt | $ 40.0 | $ 6.8 | $ 7.5 | $ (17.5) | $ 36.8 |
| Accounts payable | 5.8 | 35.2 | 20.6 | — | 61.6 |
| Accrued payroll | 27.7 | 50.7 | 47.8 | — | 126.2 |
| Accrued interest payable | 26.5 | 2.9 | 0.3 | — | 29.7 |
| Other current liabilities | 68.0 | 19.0 | 86.4 | (1.3) | 172.1 |
| Total current liabilities | 168.0 | 114.6 | 162.6 | (18.8) | 426.4 |
| Long-term debt, net of current portion | 2,821.9 | 255.6 | 57.2 | — | 3,134.7 |
| Intercompany notes payable | — | — | 546.6 | (546.6) | — |
| Self-insured risks | 19.8 | — | 81.8 | — | 101.6 |
| Other long-term liabilities | 23.8 | 12.4 | 55.9 | (49.1) | 43.0 |
| Intercompany payable | — | 141.7 | 179.1 | (320.8) | — |
| | 3,033.5 | 524.3 | 1,083.2 | (935.3) | 3,705.7 |
| Commitments and contingencies | | | | | |
| Redeemable noncontrolling interests | — | — | 121.1 | — | 121.1 |
| **Shareholders' equity:** | | | | | |
| HealthSouth shareholders' equity | 611.4 | 1,858.4 | 600.9 | (2,459.3) | 611.4 |
| Noncontrolling interests | — | — | 167.9 | — | 167.9 |
| Total shareholders' equity | 611.4 | 1,858.4 | 768.8 | (2,459.3) | 779.3 |
| **Total liabilities and shareholders' equity** | $ 3,644.9 | $ 2,382.7 | $ 1,973.1 | $ (3,394.6) | $ 4,606.1 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Balance Sheet**

| | As of December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | (In Millions) | | | | |
| **Assets** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | $ 41.9 | $ 1.5 | $ 23.3 | $ — | $ 66.7 |
| Restricted cash | — | — | 45.6 | — | 45.6 |
| Accounts receivable, net | — | 202.6 | 120.6 | — | 323.2 |
| Deferred income tax assets | 125.0 | 39.8 | 23.6 | — | 188.4 |
| Prepaid expenses and other current assets | 30.9 | 15.4 | 35.2 | (18.8) | 62.7 |
| Total current assets | 197.8 | 259.3 | 248.3 | (18.8) | 686.6 |
| Property and equipment, net | 16.1 | 752.0 | 251.6 | — | 1,019.7 |
| Goodwill | — | 279.6 | 804.4 | — | 1,084.0 |
| Intangible assets, net | 11.3 | 50.6 | 244.2 | — | 306.1 |
| Deferred income tax assets | 163.3 | 17.5 | — | (51.4) | 129.4 |
| Other long-term assets | 55.8 | 42.5 | 64.2 | — | 162.5 |
| Intercompany notes receivable | 385.2 | — | — | (385.2) | — |
| Intercompany receivable and investments in consolidated affiliates | 1,898.7 | — | — | (1,898.7) | — |
| **Total assets** | $ 2,728.2 | $ 1,401.5 | $ 1,612.7 | $ (2,354.1) | $ 3,388.3 |
| **Liabilities and Shareholders' Equity** | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term debt | $ 27.9 | $ 4.2 | $ 6.2 | $ (17.5) | $ 20.8 |
| Accounts payable | 9.3 | 29.5 | 14.6 | — | 53.4 |
| Accrued payroll | 17.5 | 55.6 | 50.2 | — | 123.3 |
| Accrued interest payable | 19.2 | 1.8 | 0.2 | — | 21.2 |
| Other current liabilities | 70.4 | 15.2 | 61.3 | (1.3) | 145.6 |
| Total current liabilities | 144.3 | 106.3 | 132.5 | (18.8) | 364.3 |
| Long-term debt, net of current portion | 1,973.4 | 83.9 | 33.1 | — | 2,090.4 |
| Intercompany notes payable | — | — | 385.2 | (385.2) | — |
| Self-insured risks | 22.9 | — | 75.8 | — | 98.7 |
| Other long-term liabilities | 21.2 | 12.7 | 55.0 | (51.4) | 37.5 |
| Intercompany payable | — | 381.0 | 173.2 | (554.2) | — |
| | 2,161.8 | 583.9 | 854.8 | (1,009.6) | 2,590.9 |
| Commitments and contingencies | | | | | |
| Convertible perpetual preferred stock | 93.2 | — | — | — | 93.2 |
| Redeemable noncontrolling interests | — | — | 84.7 | — | 84.7 |
| **Shareholders' equity:** | | | | | |
| HealthSouth shareholders' equity | 473.2 | 817.6 | 526.9 | (1,344.5) | 473.2 |
| Noncontrolling interests | — | — | 146.3 | — | 146.3 |
| Total shareholders' equity | 473.2 | 817.6 | 673.2 | (1,344.5) | 619.5 |
| **Total liabilities and shareholders' equity** | $ 2,728.2 | $ 1,401.5 | $ 1,612.7 | $ (2,354.1) | $ 3,388.3 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Cash Flows**

| | For the Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | (In Millions) | | | | |
| **Net cash provided by operating activities** | $ 29.6 | $ 222.6 | $ 232.2 | $ 0.4 | $ 484.8 |
| **Cash flows from investing activities:** | | | | | |
| Acquisition of businesses, net of cash acquired | (954.6) | — | (30.5) | — | (985.1) |
| Purchases of property and equipment | (15.9) | (46.1) | (66.4) | — | (128.4) |
| Capitalized software costs | (24.5) | (0.4) | (3.2) | — | (28.1) |
| Proceeds from sale of restricted investments | — | — | 0.2 | — | 0.2 |
| Proceeds from sale of marketable securities | 12.8 | — | — | — | 12.8 |
| Purchases of restricted investments | — | — | (7.1) | — | (7.1) |
| Net change in restricted cash | — | — | 2.7 | — | 2.7 |
| Funding of intercompany note receivable | (2.0) | — | — | 2.0 | — |
| Proceeds from repayment of intercompany note receivable | 24.0 | — | — | (24.0) | — |
| Other | (0.5) | 2.3 | 0.9 | — | 2.7 |
| Net cash provided by investing activities of discontinued operations | 0.5 | — | — | — | 0.5 |
| **Net cash used in investing activities** | (960.2) | (44.2) | (103.4) | (22.0) | (1,129.8) |
| **Cash flows from financing activities:** | | | | | |
| Principal borrowings on term loan facilities | 250.0 | — | 2.0 | (2.0) | 250.0 |
| Proceeds from bond issuance | 1,400.0 | — | — | — | 1,400.0 |
| Principal payments on debt, including pre-payments | (595.0) | (1.6) | (0.8) | — | (597.4) |
| Principal payments on intercompany note payable | — | — | (24.0) | 24.0 | — |
| Borrowings on revolving credit facility | 540.0 | — | — | — | 540.0 |
| Payments on revolving credit facility | (735.0) | — | — | — | (735.0) |
| Debt amendment and issuance costs | (31.9) | — | — | — | (31.9) |
| Principal payments under capital lease obligations | (0.3) | (4.5) | (6.2) | — | (11.0) |
| Repurchases of common stock, including fees and expenses | (45.3) | — | — | — | (45.3) |
| Dividends paid on common stock | (77.2) | — | — | — | (77.2) |
| Dividends paid on convertible perpetual preferred stock | (3.1) | — | — | — | (3.1) |
| Distributions paid to noncontrolling interests of consolidated affiliates | — | — | (54.4) | — | (54.4) |
| Other | 2.2 | 1.5 | 1.5 | — | 5.2 |
| Change in intercompany advances | 225.5 | (174.0) | (51.1) | (0.4) | — |
| **Net cash provided by (used in) financing activities** | 929.9 | (178.6) | (133.0) | 21.6 | 639.9 |
| **Decrease in cash and cash equivalents** | (0.7) | (0.2) | (4.2) | — | (5.1) |
| **Cash and cash equivalents at beginning of year** | 41.9 | 1.5 | 23.3 | — | 66.7 |
| **Cash and cash equivalents at end of year** | $ 41.2 | $ 1.3 | $ 19.1 | $ — | $ 61.6 |
| | | | | | |
| **Supplemental schedule of noncash investing activity:** | | | | | |
| Conversion of preferred stock to common stock | $ 93.2 | $ — | $ — | $ — | $ 93.2 |
| Intercompany note activity | (183.5) | — | 183.5 | — | — |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Cash Flows**

| | For the Year Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | (In Millions) | | | | |
| **Net cash provided by operating activities** | $ 21.9 | $ 260.1 | $ 162.9 | $ — | $ 444.9 |
| **Cash flows from investing activities:** | | | | | |
| Acquisition of businesses, net of cash acquired | (674.6) | — | (20.2) | — | (694.8) |
| Purchases of property and equipment | (15.6) | (124.0) | (31.3) | — | (170.9) |
| Capitalized software costs | (8.6) | (1.4) | (7.0) | — | (17.0) |
| Proceeds from sale of restricted investments | — | — | 0.3 | — | 0.3 |
| Purchases of restricted investments | — | — | (3.5) | — | (3.5) |
| Net change in restricted cash | 1.0 | — | 5.8 | — | 6.8 |
| Other | — | (0.7) | 2.9 | — | 2.2 |
| **Net cash used in investing activities** | (697.8) | (126.1) | (53.0) | — | (876.9) |
| **Cash flows from financing activities:** | | | | | |
| Principal borrowings on term loan facilities | 450.0 | — | — | — | 450.0 |
| Proceeds from bond issuance | 175.0 | — | — | — | 175.0 |
| Principal payments on debt, including pre-payments | (298.0) | (1.5) | (3.1) | — | (302.6) |
| Borrowings on revolving credit facility | 440.0 | — | — | — | 440.0 |
| Payments on revolving credit facility | (160.0) | — | — | — | (160.0) |
| Principal payments under capital lease obligations | (0.3) | (2.5) | (3.3) | — | (6.1) |
| Debt amendment and issuance costs | (6.5) | — | — | — | (6.5) |
| Repurchases of common stock, including fees and expenses | (43.1) | — | — | — | (43.1) |
| Dividends paid on common stock | (65.8) | — | — | — | (65.8) |
| Dividends paid on convertible perpetual preferred stock | (6.3) | — | — | — | (6.3) |
| Distributions paid to noncontrolling interests of consolidated affiliates | — | — | (54.1) | — | (54.1) |
| Proceeds from exercising stock warrants | 6.3 | — | — | — | 6.3 |
| Other | 7.4 | — | — | — | 7.4 |
| Change in intercompany advances | 158.6 | (130.8) | (27.8) | — | — |
| **Net cash provided by (used in) financing activities** | 657.3 | (134.8) | (88.3) | — | 434.2 |
| **(Decrease) increase in cash and cash equivalents** | (18.6) | (0.8) | 21.6 | — | 2.2 |
| **Cash and cash equivalents at beginning of year** | 60.5 | 2.3 | 1.7 | — | 64.5 |
| **Cash and cash equivalents at end of year** | $ 41.9 | $ 1.5 | $ 23.3 | $ — | $ 66.7 |
| | | | | | |
| **Supplemental schedule of noncash financing activities:** | | | | | |
| Equity rollover from Encompass management | $ — | $ — | $ 64.5 | $ — | $ 64.5 |

**HealthSouth Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Condensed Consolidating Statement of Cash Flows**

| | For the Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | HealthSouth Corporation | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminating Entries | HealthSouth Consolidated |
| | | | (In Millions) | | |
| **Net cash provided by operating activities** | $ 113.2 | $ 235.7 | $ 121.4 | $ — | $ 470.3 |
| **Cash flows from investing activities:** | | | | | |
| Acquisition of businesses, net of cash acquired | — | (28.9) | — | — | (28.9) |
| Purchases of property and equipment | (2.8) | (167.9) | (24.5) | — | (195.2) |
| Capitalized software costs | (6.0) | (11.1) | (4.2) | — | (21.3) |
| Proceeds from sale of restricted investments | — | — | 16.9 | — | 16.9 |
| Proceeds from sale of Digital Hospital | 10.8 | — | — | — | 10.8 |
| Purchases of restricted investments | — | — | (9.2) | — | (9.2) |
| Net change in restricted cash | (0.2) | — | (2.9) | — | (3.1) |
| Other | — | 0.9 | (0.4) | — | 0.5 |
| Net cash provided by investing activities of discontinued operations | — | 3.1 | 0.2 | — | 3.3 |
| **Net cash provided by (used in) investing activities** | 1.8 | (203.9) | (24.1) | — | (226.2) |
| **Cash flows from financing activities:** | | | | | |
| Principal payments on debt, including pre-payments | (59.5) | (1.3) | (1.7) | — | (62.5) |
| Principal borrowings on notes | — | — | 15.2 | — | 15.2 |
| Borrowings on revolving credit facility | 197.0 | — | — | — | 197.0 |
| Payments on revolving credit facility | (152.0) | — | — | — | (152.0) |
| Principal payments under capital lease obligations | (0.3) | (6.3) | (3.5) | — | (10.1) |
| Debt amendment and issuance costs | (2.6) | — | — | — | (2.6) |
| Repurchases of common stock, including fees and expenses | (234.1) | — | — | — | (234.1) |
| Dividends paid on common stock | (15.7) | — | — | — | (15.7) |
| Dividends paid on convertible perpetual preferred stock | (23.0) | — | — | — | (23.0) |
| Distributions paid to noncontrolling interests of consolidated affiliates | — | — | (46.3) | — | (46.3) |
| Proceeds from exercising stock warrants | 15.3 | — | — | — | 15.3 |
| Other | 4.8 | — | 1.6 | — | 6.4 |
| Change in intercompany advances | 84.3 | (22.2) | (62.1) | — | — |
| **Net cash used in financing activities** | (185.8) | (29.8) | (96.8) | — | (312.4) |
| **(Decrease) increase in cash and cash equivalents** | (70.8) | 2.0 | 0.5 | — | (68.3) |
| **Cash and cash equivalents at beginning of year** | 131.3 | 0.3 | 1.2 | — | 132.8 |
| **Cash and cash equivalents at end of year** | $ 60.5 | $ 2.3 | $ 1.7 | $ — | $ 64.5 |
| | | | | | |
| **Supplemental schedule of noncash financing activities:** | | | | | |
| Convertible debt issued | $ 320.0 | $ — | $ — | $ — | $ 320.0 |
| Repurchase of preferred stock | (320.0) | — | — | — | (320.0) |

**EXHIBIT LIST**

| No. | Description |
|---|---|
| 2.1 | Stock Purchase Agreement, dated as of November 23, 2014, by and among EHHI Holdings, Inc., the sellers party thereto, HealthSouth Corporation, HealthSouth Home Health Corporation, and the sellers' representative named therein (incorporated by reference to Exhibit 2.1 to HealthSouth's Annual Report on Form 10-K filed on March 2, 2015).# |
| 2.2 | Rollover Stock Agreement, dated as of November 23, 2014, by and among HealthSouth Corporation, HealthSouth Home Health Holdings, Inc., and the selling stockholders of EHHI Holdings, Inc. named therein (incorporated by reference to Exhibit 2.2 to HealthSouth's Annual Report on Form 10-K filed on March 2, 2015).# |
| 2.3 | Acquisition Agreement, dated as of June 10, 2015, by and among HealthSouth Corporation, HealthSouth Acquisition Holdings, LLC, Reliant Holding Company, LLC, Reliant Hospital Partners, LLC, Nautic Partners VI, L.P., Nautic Partners VI-A, L.P., Reliant Blocker Corp., the additional indemnitors listed therein, and the sellers' representative named therein (incorporated by reference to Exhibit 2.1 to HealthSouth's Current Report on Form 8-K filed on June 12, 2015).# |
| 3.1.1 | Restated Certificate of Incorporation of HealthSouth Corporation, as filed in the Office of the Secretary of State of the State of Delaware on May 21, 1998.* |
| 3.1.2 | Certificate of Amendment to the Restated Certificate of Incorporation of HealthSouth Corporation, as filed in the Office of the Secretary of State of the State of Delaware on October 25, 2006 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on October 31, 2006). |
| 3.1.3 | Certificate of Designations of 6.50% Series A Convertible Perpetual Preferred Stock, as filed with the Secretary of State of the State of Delaware on March 7, 2006 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on March 9, 2006). |
| 3.2 | Amended and Restated Bylaws of HealthSouth Corporation, effective as of May 7, 2015 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on May 11, 2015). |
| 4.1 | Warrant Agreement, dated as of September 30, 2009, among HealthSouth Corporation and Computershare Inc. and Computershare Trust Company, N.A., jointly and severally as warrant agent (incorporated by reference to Exhibit 4.1 to HealthSouth's Registration Statement on Form 8-A filed on October 1, 2009). |
| 4.2.1 | Indenture, dated as of December 1, 2009, between HealthSouth Corporation and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to HealthSouth's 7.250% Senior Notes due 2018, 7.750% Senior Notes due 2022, 5.75% Senior Notes due 2024, and 5.75% Senior Notes due 2025 (incorporated by reference to Exhibit 4.7.1 to HealthSouth's Annual Report on Form 10-K filed on February 23, 2010). |
| 4.2.2 | First Supplemental Indenture, dated December 1, 2009, among HealthSouth Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.7.2 to HealthSouth's Annual Report on Form 10-K filed on February 23, 2010). |
| 4.2.3 | Second Supplemental Indenture, dated as of October 7, 2010, among HealthSouth Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.2 to HealthSouth's Current Report on Form 8-K filed on October 12, 2010). |
| 4.2.4 | Third Supplemental Indenture, dated October 7, 2010, among HealthSouth Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to HealthSouth's 7.750% Senior Notes due 2022 (incorporated by reference to Exhibit 4.3 to HealthSouth's Current Report on Form 8-K filed on October 12, 2010). |
| 4.2.5 | Fourth Supplemental Indenture, dated September 11, 2012, among HealthSouth Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to HealthSouth's 5.75% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 to HealthSouth's Current Report on Form 8-K filed on September 11, 2012). |

| | |
|---|---|
| 4.2.6 | Fifth Supplemental Indenture, dated as of March 12, 2015, among HealthSouth Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to HealthSouth's 5.125% Senior Notes due 2023 (incorporated by reference to Exhibit 4.2 to HealthSouth's Current Report on Form 8-K filed on March 12, 2015). |
| 4.2.7 | Sixth Supplemental Indenture, dated as of August 7, 2015, among HealthSouth Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to HealthSouth's 5.75% Senior Notes due 2024 (incorporated by reference to Exhibit 4.4 to HealthSouth's Current Report on Form 8-K filed on August 12, 2015). |
| 4.2.8 | Registration Rights Agreement, dated August 7, 2015, among HealthSouth Corporation, the subsidiary guarantors named therein and the several initial purchasers named therein (incorporated by reference to Exhibit 4.5 to HealthSouth's Current Report on Form 8-K filed on August 12, 2015). |
| 4.2.9 | Seventh Supplemental Indenture, dated as of September 16, 2015, among HealthSouth Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to HealthSouth's 5.75% Senior Notes due 2025 (incorporated by reference to Exhibit 4.2 to HealthSouth's Current Report on Form 8-K filed on September 21, 2015). |
| 4.2.10 | Registration Rights Agreement, dated September 16, 2015, among HealthSouth Corporation, the subsidiary guarantors named therein and the representative of the several initial purchasers named therein (incorporated by reference to Exhibit 4.4 to HealthSouth's Current Report on Form 8-K filed on September 21, 2015). |
| 4.3 | Indenture, dated November 18, 2013, by and between HealthSouth Corporation and Wells Fargo Bank, National Association, as trustee, relating to HealthSouth's 2.00% Convertible Senior Subordinated Notes due 2043 (incorporated by reference to Exhibit 4.1 to HealthSouth's Current Report on Form 8-K filed on November 19, 2013). |
| 10.1.1 | HealthSouth Corporation Amended and Restated 2004 Director Incentive Plan.** + |
| 10.1.2 | Form of Restricted Stock Unit Agreement (Amended and Restated 2004 Director Incentive Plan).** + |
| 10.2 | Form of Indemnity Agreement entered into between HealthSouth Corporation and the directors of HealthSouth.* + |
| 10.3 | HealthSouth Corporation Third Amended and Restated Change in Control Benefits Plan (incorporated by reference to Exhibit 10.1 to HealthSouth's Current Report on Form 8-K filed on December 8, 2014). + |
| 10.4 | Description of the HealthSouth Corporation Senior Management Compensation Recoupment Policy (incorporated by reference to Item 5, "Other Matters," in HealthSouth's Quarterly Report on Form 10-Q filed on November 4, 2009).+ |
| 10.5 | Description of the HealthSouth Corporation Senior Management Bonus and Long-Term Incentive Plans (incorporated by reference to the section captioned "Executive Compensation – Compensation Discussion and Analysis – Elements of Executive Compensation" in HealthSouth's Definitive Proxy Statement on Schedule 14A filed on April 6, 2015).+ |
| 10.6 | Description of the annual compensation arrangement for non-employee directors of HealthSouth Corporation (incorporated by reference to the section captioned "Corporate Governance and Board Structure – Compensation of Directors" in HealthSouth's Definitive Proxy Statement on Schedule 14A, filed on April 6, 2015).+ |
| 10.7 | HealthSouth Corporation Fourth Amended and Restated Executive Severance Plan (incorporated by reference to Exhibit 10.1 to HealthSouth's Quarterly Report on Form 10-Q filed on October 29, 2013).+ |
| 10.8 | HealthSouth Corporation Nonqualified 401(k) Plan (incorporated by reference to Exhibit 10.1 to HealthSouth's Quarterly Report on Form 10-Q filed on July 29, 2014).+ |
| 10.9.1 | HealthSouth Corporation 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10 to HealthSouth's Current Report on Form 8-K, filed on November 21, 2005).+ |
| 10.9.2 | Form of Non-Qualified Stock Option Agreement (2005 Equity Incentive Plan).**+ |
| 10.10.1 | HealthSouth Corporation Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 4(d) to HealthSouth's Registration Statement on Form S-8 filed on August 2, 2011).+ |

10.10.2 Form of Non-Qualified Stock Option Agreement (2008 Equity Incentive Plan)(incorporated by reference to Exhibit 10.28.2 to HealthSouth's Annual Report on Form 10-K filed on February 24, 2009). +

10.10.3 Form of Non-Qualified Stock Option Agreement (Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1.2 to HealthSouth's Quarterly Report on Form 10-Q filed on August 4, 2011).+

10.10.4 Form of Restricted Stock Agreement (Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1.3 to HealthSouth's Quarterly Report on Form 10-Q filed on August 4, 2011).+

10.10.5 Form of Performance Share Unit Award (Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1.4 to HealthSouth's Quarterly Report on Form 10-Q filed on August 4, 2011 and the description in Item 5, "Other Items," in HealthSouth's Quarterly Report on Form 10-Q filed on July 30, 2013).+

10.10.6 Form of Restricted Stock Unit Award (Amended and Restated 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.1.5 to HealthSouth's Quarterly Report on Form 10-Q filed on August 4, 2011).+

10.11 HealthSouth Corporation Directors' Deferred Stock Investment Plan (incorporated by reference to HealthSouth's Annual Report on Form 10-K filed on February 19, 2013).+

10.12.1 Third Amended and Restated Credit Agreement, dated August 10, 2012, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.1 to HealthSouth's Quarterly Report on Form 10-Q filed on October 26, 2012).

10.12.2 First Amendment to the Third Amended and Restated Credit Agreement, dated June 11, 2013, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.1 to HealthSouth's Quarterly Report on Form 10-Q filed on July 30, 2013).

10.12.3 Second Amendment and Additional Tranche Term Loan Amendment to Third Amended and Restated Credit Agreement, dated as of September 22, 2014, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.1 to HealthSouth's Current Report on Form 8-K filed on September 24, 2014).

10.12.4 Additional Tranche Term Loan Amendment to Third Amended and Restated Credit Agreement, dated as of December 23, 2014, among HealthSouth Corporation, its subsidiary guarantors, the lenders party thereto, and Barclays Bank PLC, as administrative agent (incorporated by reference to Exhibit 10.1 to HealthSouth's Current Report on Form 8-K filed on December 23, 2014).

10.12.5 Third Amendment and Additional Tranche Term Loan Amendment to Third Amended and Restated Credit Agreement, dated as of June 24, 2015, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.1 to HealthSouth's Current Report on Form 8-K filed on June 25, 2015).

10.12.6 Fourth Amendment and Additional Tranches of Term Loans Amendment to Third Amended and Restated Credit Agreement, dated as of July 29, 2015, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time (incorporated by reference to Exhibit 10.2 to HealthSouth's Quarterly Report on Form 10-Q filed on October 29, 2015).

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10.12.7 Amended and Restated Collateral and Guarantee Agreement, dated as of October 26, 2010, among HealthSouth Corporation, its subsidiaries identified herein, and Barclays Bank PLC, as collateral agent (incorporated by reference to Exhibit 10.3 to HealthSouth's Current Report on Form 8-K/A filed on November 23, 2010).

10.13 Homecare Homebase, L.L.C. Restated Client Service and License Agreement, dated December 31, 2014, by and between Homecare Homebase, L.L.C. and EHHI Holdings, Inc. (incorporated by reference to Exhibit 10.19 to HealthSouth's Annual Report on Form 10-K filed on March 2, 2015).ˆ

| | |
|---|---|
| 10.14 | Amended and Restated Senior Management Agreement, dated as of November 23, 2014, by and among EHHI Holdings, Inc., April Anthony, HealthSouth Corporation, and solely for purposes of Sections 6(b) and 6(j) thereof, Thoma Cressey Fund VIII, L.P. (incorporated by reference to Exhibit 10.20 to HealthSouth's Annual Report on Form 10-K filed on March 2, 2015).+ |
| 12.1 | Computation of Ratios. |
| 21.1 | Subsidiaries of HealthSouth Corporation. |
| 23.1 | Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm. |
| 24.1 | Power of Attorney (included as part of signature page). |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Sections of the HealthSouth Corporation Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language), submitted in the following files: |

| | |
|---|---|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

# Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request.

* Incorporated by reference to HealthSouth's Annual Report on Form 10-K filed with the SEC on June 27, 2005.

** Incorporated by reference to HealthSouth's Annual Report on Form 10-K filed with the SEC on March 29, 2006.

+ Management contract or compensatory plan or arrangement.

ˆ Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment. The nonpublic information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

**Exhibit 2.1**

# STOCK PURCHASE AGREEMENT

by and among

**EHHI HOLDINGS, INC.,**

**THE SELLERS PARTY HERETO,**

**HealthSouth Corporation,**

HealthSouth Home Health Corporation **,**

and

**THE SELLERS' REPRESENTATIVE NAMED HEREIN**

Dated as of November 23, 2014

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# STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (this " Agreement ") is made as of the 23 rd day of November, 2014, by and among (i) EHHI Holdings, Inc., a Delaware corporation (the " Company "), (ii) each of the Sellers (as defined herein), (iii) HealthSouth Corporation, a Delaware corporation (the " Parent "), (iv) HealthSouth Home Health Corporation, a Delaware corporation (the " Buyer "), and (v) EHHI Sellers' Representative, LLC, a Delaware limited liability company, solely in its capacity as the representative of the Sellers (the " Sellers' Representative ").

Whereas, the Shareholders (as defined herein) are the record and beneficial owners of all of the outstanding shares of Common Stock (the " Shares ");

Whereas, the Optionholders (as defined herein) hold options to purchase shares of Class D Common Stock;

Whereas, certain Shareholders wish to contribute certain of their Shares to HealthSouth Home Health Holdings, Inc., a Delaware corporation and a newly-formed, wholly-owned Subsidiary of the Parent (and immediate parent of the Buyer) (" HHHH "), in exchange for non-voting shares of the common stock of HHHH of equal value (the " Rollover ");

Whereas, immediately following the Rollover, the Shareholders desire to sell and transfer to the Buyer all of the Shares not contributed to HHHH in the Rollover, and the Buyer desires to acquire all of such Shares, all on the terms and subject to the conditions set forth in this Agreement; and

Whereas, the parties desire that all Options be cancelled immediately prior to the Closing and, in consideration for such cancellation, the Optionholders shall receive the amounts provided for herein, subject to the terms and conditions set forth in this Agreement.

Now, therefore, in consideration of these premises, the covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**1. Definitions.**

1.1. Certain Matters of Construction . For purposes of this Agreement, except as specified otherwise, the words "hereof", "herein", "hereunder" and words of similar import will refer to this Agreement as a whole and not to any particular Section or provision of this Agreement, and reference to a particular Section of this Agreement will include all subsections thereof. The word "party" will refer to any Seller, the Company, the Buyer or, with respect to Section 11 (Miscellaneous) and defined terms used therein, the Sellers' Representative. The word "including" means including without limitation. The word "will" has the same meaning as the word "shall". Definitions will be equally applicable to both the singular and plural forms of the terms defined, and references to the masculine, feminine or neuter gender will include each other gender. All references in this Agreement to any Section, Exhibit or Schedule will, unless otherwise specified, be deemed to be a reference to an Section, Exhibit or Schedule of or to this Agreement, in each case as such may be amended in accordance herewith, all of which are made a part of this Agreement. All references in this Agreement to monetary amounts will, unless otherwise specified, be to United States dollars.

1.2. Certain Definitions . For purposes of this Agreement, the following terms will have the following meanings:

" Accounting Firm " is defined in Section 8.7.2(a) .

" Accounting Principles " means the accounting principles, policies, procedures and methodologies followed in the preparation of the Annual Financial Statements, as further described in the specific policies, procedures and methodologies set forth on Schedule 1.2(a) .

" Acquired Companies " means, collectively, the Company and each of its Subsidiaries.

" Acquisition Cash " means all accounts receivable collected and held as cash by the Acquired Companies that are payable by the Acquired Companies pursuant to the terms of the agreements and corresponding sections set forth on Schedule 1.2(b) to the seller parties identified in such agreements, net of any related fees, costs or other set-off rights of the Acquired Companies pursuant to such agreements.

" Acquisition Liabilities " means any current liabilities of the Acquired Companies or amounts recorded in contra accounts to current assets by the Acquired Companies, including accrued expenses and contra accounts to accounts receivable, in each case to the extent relating to accounts receivable that the Acquired Companies are responsible for collecting pursuant to the terms of the agreements and corresponding sections set forth on Schedule 1.2(b) on behalf of the seller parties identified in such agreements.

" Action " means any claim, suit, litigation or action brought by or before any Governmental Authority.

" Additional Consideration " means, as of any date of determination, without duplication, the sum of (a) any portion of the Escrow Amount paid or payable to the Sellers pursuant to this Agreement and the Escrow Agreement, plus (b), any adjustments arising under Section 2.5.5 payable to the Sellers, plus (c) any amounts released from the Sellers' Representative Reserve paid or payable to the Sellers pursuant to this Agreement, plus (d) any additional amounts payable to the Sellers under Section 8.7 .

" Affiliate " means, as to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person. For the purposes of this definition, "controlling", "controlled" and "control" mean the possession, direct or indirect, of the power to direct, or cause the direction of, the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

" Agreement " is defined in the Preamble.

" Allocation Schedule " means a schedule setting forth (a) each Seller's allocable portion of (i) the Purchase Price, (ii) the Equity Purchase Price delivered pursuant to Section 2.4.1(a) and Section 2.4.1(b) , (iii) the Escrow Amount contributed to the Escrow Account at Closing, (iv) the Sellers' Representative Reserve and (v) any Additional Consideration paid to the Sellers following the Closing and (b) for each Rollover Stock Participant, the Rollover Amount for such Rollover Stock Participant. For purposes of the Allocation Schedule, (i) after taking into account the portion of the Equity Purchase Price paid to the Class A Common Stock in satisfaction of the aggregate Liquidation Value (as defined in the Company's certificate of incorporation) of such shares (including all accumulated accrued and unpaid dividends thereon), all shares of Class A Common Stock shall be treated as if converted to the

corresponding number of shares of Class D Common Stock in accordance with the Company's certificate of incorporation and (ii) all Options shall be treated as exercised. The Allocation Schedule shall be prepared by the Sellers in a manner consistent with the preparation of the sample Allocation Schedule attached as Schedule 1.2(c) hereto.

" Annual Financial Statements " is defined in Section 3.5 .

" Balance Sheet Time " is defined in Section 2.5.1 .

" Base Purchase Price " is defined in Section 2.2.1 .

" Business " means the businesses conducted by the Acquired Companies as of the date hereof.

" Business Day " means any day on which banking institutions in New York, New York are open for the purpose of transacting business.

" Buyer " is defined in the Preamble.

" Buyer Failure to Close " is defined in Section 10.1.6 .

" Buyer Fundamental Representations " means the representations and warranties set forth in Sections 5.1 (Organization), 5.2 (Authorization) and 5.6 (Brokers).

" Buyer Indemnified Parties " is defined in Section 9.2.1 .

" Cash on Hand " means all cash and cash equivalents (including readily marketable securities and short-term liquid investments with maturities of ninety (90) days or less, but excluding any Restricted Cash and Acquisition Cash, and excluding, for the avoidance of doubt, the amount of all uncleared checks and drafts issued by the Company or its Subsidiaries, and including, for the avoidance of doubt, all uncleared checks and drafts deposited for the account of the Company or its Subsidiaries) of the Acquired Companies, which will be calculated in accordance with the Accounting Principles. Cash on Hand at September 30, 2014, is set forth on Schedule 1.2(e) hereto.

" Charge " is defined in Section 11.2.6 .

" Claim Notice " is defined in Section 9.5.1 .

" Class A Common Stock " means the Class A Common Stock of the Company, par value $0.01 per share.

" Class B Common Stock " means the Class B Common Stock of the Company, par value $0.01 per share.

" Class C Common Stock " means the Class C Common Stock of the Company, par value $0.01 per share.

" Class D Common Stock " means the Class D Common Stock of the Company, par value $0.01 per share.

" Closing " is defined in Section 2.3 .

" Closing Balance Sheet " is defined in Section 2.5.2 .

" Closing Date " is defined in Section 2.3 .

" Closing Statement " is defined in Section 2.5.2 .

" Code " means the Internal Revenue Code of 1986, as amended, and the applicable Treasury regulations issued thereunder.

" Common Stock " means, collectively, the Class A Common Stock, the Class B Common Stock, the Class C Common Stock and the Class D Common Stock.

" Company " is defined in the Preamble.

" Company Indebtedness " means, in the aggregate, all amounts outstanding as of the Closing in respect of Indebtedness of the Acquired Companies. A correct and complete list of all Company Indebtedness outstanding on the date hereof is set forth on Schedule 1.2(d) , including the identity of the lender, administrative agent, or counterparty thereof, and the aggregate principal that would be payable in connection with the repayment of such Indebtedness on such date.

" Company Plan " is defined in Section 3.10.1 .

" Company's Knowledge " means the actual knowledge, after reasonable internal inquiry, of April Anthony, Bob Thompson, Tracey Kruse, Luke James, Dan Peoples, Bud Langham and Matt McMurphy.

" Confidentiality Agreement " is defined in Section 8.1 .

" Contemplated Transactions " means the transactions contemplated by this Agreement and the Escrow Agreement that are anticipated to be consummated at the Closing.

" Contract " means any written or oral agreement, contract, commitment, lease, license, instrument, note or other document or instrument between two or more Persons or an enforceable commitment by one or more Persons in favor of another Person or Persons (other than an Employee Plan).

" Credit Agreement " means the Credit Agreement, dated as of June 7, 2012, by and among Advanced Homecare Holdings, Inc., a Subsidiary of the Company, the other borrowers and guarantors thereto, CIT Healthcare LLC, as administrative agent, and the lenders and agents party thereto.

" Deductible " is defined in Section 9.2.2 .

" Disclosure Schedules " means all of the various disclosure schedules to this Agreement that are being delivered by the Company, the Sellers and the Buyer in connection with the execution and delivery hereof.

" Dispute Notice " is defined in Section 2.5.3 .

" Dispute Submission Notice " is defined in Section 2.5.4 .

" Disputed Item " is defined in Section 2.5.3 .

" D&O Indemnified Persons " is defined in Section 8.6.1 .

" Employee Plan " means any plan, program, agreement, policy or arrangement that is: (a) a Welfare Plan; (b) a pension benefit plan within the meaning of Section 3(2) of ERISA; (c) a stock bonus, stock purchase, restricted stock, stock appreciation right, profits interest or similar equity-based plan; or (d) any other material deferred-compensation, retirement, welfare-benefit, bonus, incentive or fringe benefit plan, program, agreement, policy or arrangement.

" Environmental Laws " means all applicable national, federal, state, provincial and local Legal Requirements relating to pollution or the protection of human health or the environment, or to the manufacture, processing, distribution, use, treatment, storage, release, disposal, transport, or handling of any hazardous or toxic substances, chemicals, materials, pollutants, or wastes defined, listed, classified, or regulated as such in or under any Legal Requirement, or to the record keeping, notification, disclosure, or reporting requirements respecting thereof.

" Equity Purchase Price " is defined in Section 2.1 .

" ERISA " means the Employee Retirement Income Security Act of 1974, as amended, and the regulations issued thereunder.

" Escrow Account " means the account established by the Escrow Agent pursuant to the terms of the Escrow Agreement.

" Escrow Agent " means Wells Fargo Bank, National Association.

" Escrow Agreement " means an escrow agreement reasonably and mutually acceptable to the parties to be entered into on or prior to the Closing Date by the Buyer, the Sellers' Representative, the Company and the Escrow Agent.

" Escrow Amount " means $20,000,000.

" Escrow Funds " means, as of any date of determination, the excess (if any) of the Escrow Amount (including accrued interest or earnings thereon) over the sum of all distributions and other payments to any Person from the Escrow Accounts paid pursuant to the terms of the Escrow Agreement on or prior to such date of determination.

" Escrow Termination Date " is defined in Section 9.1 .

" Estimated Cash on Hand Amount " is defined in Section 2.5.1 .

" Estimated Closing Balance Sheet " is defined in Section 2.5.1 .

" Estimated Closing Statement " is defined in Section 2.5.1 .

" Estimated Company Indebtedness " is defined in Section 2.5.1 .

" Estimated Transaction Bonus Payments " is defined in Section 2.5.1 .

" Estimated Transaction Expenses " is defined in Section 2.5.1 .

" Estimated Working Capital Amount " is defined in Section 2.5.1 .

" Expiration Date " is defined in Section 10.1.4 .

“ Final Cash on Hand Amount ” is defined in Section 2.5.5 .

“ Final Company Indebtedness ” is defined in Section 2.5.5 .

“ Final Transaction Bonus Payments ” is defined in Section 2.5.5 .

“ Final Transaction Expenses ” is defined in Section 2.5.5 .

“ Final Working Capital Amount ” is defined in Section 2.5.5 .

“ Financial Statements ” is defined in Section 3.5 .

“ GAAP ” means United States generally accepted accounting principles, as in effect from time to time, consistently applied.

“ Governmental Authority ” means any government or governmental or regulatory authority or entity, whether U.S. federal, state, provincial, local, or foreign, including any political subdivision hereof, and any department, court, agency or official of any of the foregoing.

“ Governmental Order ” means any ruling, award, decision, injunction, judgment, order or decree entered, issued or made by any Governmental Authority.

“ Government Program ” means any United States federal, state or local health care or reimbursement programs administered by a Governmental Authority under Title XVIII of the Social Security Act (“ Medicare ”), Title XIX of the Social Security Act (“ Medicaid ”), CHAMPUS, TRICARE, or any other similar Legal Requirement, and any successor program to any of the above.

“ Hazardous Substance ” means “hazardous substance” (as defined in 42 U.S.C. § 9601(14)).

“ Healthcare Laws ” means all applicable Legal Requirements of any Governmental Authority pertaining to health regulatory matters applicable to the operations of the Acquired Companies, including: (i) the Federal Healthcare Program Anti-Kickback Statute, 42 U.S. C. § 1320a-7b(b), and any anti-kickback law of a state, (ii) the Federal False Claims Act, 31 U.S.C. § 3729, and any false claim or fraud law of a state, (iii) the Federal Physician Self-Referral Law, 42 U.S.C. §§ 1395nn et seq., and any physician self-referral law of a state; (iv) the Health Insurance Portability and Accountability Act, as amended by the Health Information Technology for Economic and Clinical Health Act, and the rules and regulations promulgated thereunder (collectively “ HIPAA ”); (v) the Medicare Act, 42 U.S.C. §§ 1395 et seq., the Medicaid Act, § 42 U.S.C. §§ 1396 et seq., or other federal and state health care programs; (vi) the civil monetary penalty laws (42 U.S.C. § 1320a-7a); (vii) the U.S. Department of Health and Human Services and the state departments of health, and (viii) any other law which regulates kickbacks, patient or program charges, recordkeeping, referrals, the hiring of employees or acquisition of services or supplies from those who have been excluded from government health care programs, quality, safety, privacy, security, licensure or accreditation.

“ HHHH ” is defined in the Recitals.

“ HHHH Shares ” is defined in Section 2.1.2 .

“ HSR Act ” means the Hart-Scott-Rodino Antitrust Improvements Act of 1974, as amended, and the regulations issued thereunder.

" Income Tax " means any Tax measured in whole or in part by income or gains (or similar Tax imposed in lieu thereof).

" Indebtedness " means with respect to any Person, and without duplication, all outstanding obligations of such Person (a) in respect of indebtedness for borrowed money or extensions of credit (to the extent drawn), whether secured or unsecured, including all outstanding principal, interest, fees, and other amounts payable with respect thereto (including, for the avoidance of doubt, any prepayment penalties or make-whole payments required in connection with the repayment of borrowed money prior to its stated maturity date), (b) evidenced by notes, debentures or similar instruments, (c) in respect of any earn-out or other deferred purchase price for the acquisition by such Person of any business, property or other Person, but excluding liabilities related to Restricted Cash, Acquisition Liabilities and any ordinary trade accounts payable or accruals incurred in the ordinary course of business which are captured in the accounts payable and/or accrued expenses of the Acquired Companies, (d) as lessee under leases recorded as capital leases in accordance with GAAP and (e) with respect to guarantees of obligations of the types described in clauses (a) through (d) above of any other Person.

" Indemnified Party " means with respect to any claim for indemnification pursuant to Section 9 , each Buyer Indemnified Party or Seller Indemnified Party asserting such claim (or on whose behalf such claim is asserted) under Section 9.2 or 9.3 , as the case may be (it being understood that the Sellers' Representative will be the sole and exclusive agent, representative and attorney-in-fact for each of the Sellers for all purposes of asserting such claims, receiving and giving notices and service of process in respect thereof, making filings with any court or other Governmental Authority in respect thereof and controlling and otherwise making all decisions in connection with each such claim brought on behalf of any Seller under Section 9.3 , and the term "Indemnified Party" shall mean the Sellers' Representative for such purposes to the extent that it is acting in such capacity on behalf of any or all of the Sellers).

" Indemnifying Party " means, with respect to any claim for indemnification pursuant to Section 9 , the party or parties against whom such claim has been asserted (it being understood that the Sellers' Representative will be the sole and exclusive agent, representative and attorney-in-fact for each of the Sellers for all purposes of responding to and defending such claims, receiving and giving notices and service of process in respect thereof, making filings with any court or other Governmental Authority in respect thereof, controlling and otherwise making all decisions on behalf of each of the Sellers in connection with each such claim brought against any of the Sellers under Section 9.2 , and the term "Indemnifying Party" shall mean the Sellers' Representative for such purposes (but, for the avoidance of doubt, not for purposes of liability) when it is acting in such capacity on behalf of any or all of the Sellers).

" Indemnity Agreement " is defined in Section 8.6.1 .

" Independent Referee " means BDO USA, LLP (" BDO "); provided that, if BDO is unable or unwilling to serve as Independent Referee, and the Buyer and the Sellers' Representative are unable to agree on another independent and nationally recognized accounting firm with expertise in disputes of the type contemplated by Section 2.5 within fifteen (15) Business Days of receiving notice that BDO will not serve as Independent Referee, the Buyer and Sellers' Representative shall each nominate such a firm, and the two firms so nominated shall nominate a third such firm, with such third firm to serve as the Independent Referee.

" Individual Seller Payment " is defined in Section 9.9.2 .

“ Insurance Proceeds ” is defined in Section 9.4 .

“ Intellectual Property ” means all intellectual property, including all U.S. and foreign patents, invention disclosures, and all related continuations, continuations-in-part, divisionals, reissues, re-examinations, substitutions, and extensions thereof, trademarks, trade names, service marks, corporate names, and other similar designations of source or origin, copyrights and all pending applications for and registrations of any of the foregoing, domain names, rights in computer programs (whether in source code, object code, or other form), algorithms, databases, compilations and data, technology supporting the foregoing, and proprietary rights in documentation, including user manuals and training materials, related thereto, trade secrets, confidential information, ideas, know-how, inventions, proprietary processes, formulae, models, and methodologies.

“ Interim Financial Statements ” is defined in Section 3.5 .

“ IP Agreement ” is defined in Section 3.15.2 .

“ Leases ” is defined in Section 3.8.2 .

“ Legal Requirement ” means any foreign or U.S. federal, state or local statute, law, ordinance, code, rule, regulation or requirement from a Governmental Authority, including any Governmental Order.

“ Lien ” means any mortgage, pledge, lien, security interest, hypothecation, bailment, encumbrance or restriction on transfer.

“ Losses ” means all losses, liabilities, damages, awards, fines, penalties, expenses, fees, costs and amounts paid in settlement in accordance with this Agreement (including reasonable fees and expenses of counsel) incurred or suffered by an Indemnified Party, whether or not arising out of a third-party claim, but excluding any and all amounts in respect of lost profits or earnings (or damages or losses calculated as a multiple of earnings or some other financial measure), loss of business reputation or opportunity or business interruption loss, loss of revenue, diminution in value, and any incidental, indirect, consequential, special, exemplary or punitive damages (other than any damages payable by such Indemnified Party pursuant to Third Party Claims).

“ Material Adverse Effect ” means any change, event, circumstance or effect that, individually or in the aggregate, is, has been, or would reasonably be expected to be materially adverse to the business, assets, liabilities, financial condition or results of operations of the Acquired Companies, taken as a whole; provided , however , that any such change, event, circumstance or effect caused by or resulting from any of the following shall not be considered, and shall not be taken into account in determining the existence of, a “Material Adverse Effect”: (i) the announcement, pendency or consummation of the Contemplated Transactions, or the execution of this Agreement or the performance of obligations hereunder, including the impact of any of the foregoing on relationships with customers, suppliers, employees or independent contractors, (ii) conditions affecting the global economy or the financial, credit, commodities or capital markets as a whole, or generally affecting the industries in which the Acquired Companies conduct their business, (iii) any change in financial, banking, or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (iv) any change in, adoption of, or change in the interpretation of any applicable Legal Requirement or GAAP, including any changes in Healthcare Laws or reimbursement rates, (v) any national or international political or social conditions, including the engagement or continuation by the United States in hostilities or the escalation thereof, whether or not pursuant to

the declaration of a national emergency or war, or the occurrence or the escalation of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (vi) pandemics, earthquakes, hurricanes, tornados, floods or other natural disasters, (vii) the failure by the Acquired Companies to meet any revenue or earnings projections, forecasts or predictions (provided, that clause (vii) shall not prevent a determination that any effect or change underlying such failure has resulted in a Material Adverse Effect, to the extent such change or effect is not otherwise excluded from this definition of Material Adverse Effect), or (viii) any action taken by, or with the prior written consent of, the Buyer or any of its Affiliates with respect to the Contemplated Transactions or with respect to the Acquired Companies, except to the extent any change, event, circumstance or effect (by itself or when aggregated or taken together with any and all other changes, events, circumstances or effects) results from, arises out of, or is attributable to the matters described in clauses (ii) through (vi) above and disproportionately affects the Acquired Companies, taken as a whole, as compared to other Persons that conduct business in the industries and geographic regions in which the Acquired Companies conduct the Business.

" Material Contract " is defined in Section 3.14.1 .

" Material Holders " means Thoma Cressey Fund VIII, L.P., The Northwestern Mutual Life Insurance Company, The Northwestern Mutual Life Insurance Company for its Group Annuity Separate Account, HCHB Consulting Inc., AGM Children's Homecare Inc., and April Anthony.

" Materiality Qualifiers " means qualifications as to "material" or Material Adverse Effect in any representation or warranty set forth herein.

" Minor Claims " is defined in Section 9.2.2 .

" Nonparty Affiliate " is defined in Section 11.18 .

" Option " means an option to purchase Class D Common Stock that is outstanding and exercisable (or will become exercisable as a result of the Contemplated Transactions) as of the Closing, whether pursuant to the terms of such option or by action of the Company's board of directors (or its authorized delegate).

" Optionholder " means a Person holding an Option as set forth on Schedule 4.3 .

" Organizational Documents " means, with respect to any Person (other than an individual), the certificate or articles of incorporation, organization or formation of such Person and any limited liability company, operating or partnership agreement, by-laws or similar documents or agreements relating to the legal organization of such Person.

" Parent " is defined in the Preamble.

" Permits " means all licenses, permits, certificates, accreditations, registrations, provider agreements, consents, approvals, authorizations, waivers, exemptions, variances or orders of, or filings with, or otherwise issued by, any Governmental Authority.

" Permitted Liens " means (a) Liens for Taxes, special assessments or other governmental and quasi-governmental charges (i) not yet due and payable or (ii) the amount or validity of which is being contested in good faith, and for which appropriate reserves have been established on the Financial Statements, (b) landlords', warehousepersons', mechanics', materialmens' or carriers' Liens to secure

claims for labor, material or supplies and other similar Liens, (c) Liens incurred or deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance, old age pension programs mandated under applicable Legal Requirements or other social security regulations, (d) zoning, building, entitlement and other land use regulations or restrictions imposed by a Governmental Authority with appropriate jurisdiction that are not violated by the current use or occupancy of such property, (e) the interests of the lessors and sublessors of any leased properties, (f) easements, rights of way and other imperfections of title or encumbrances or record affecting title that do not materially impair the value of or interfere with the present use of the property related thereto, (g) restrictions on the ownership or transfer of securities arising under applicable Legal Requirements or (h) to the extent terminated in connection with the Closing, Liens securing payment of any of the Acquired Companies with respect to Indebtedness.

" Person " means any natural person or any corporation, partnership, limited liability company, other legal entity or Governmental Authority.

" Personal Information " means personally identifiable information pertaining to an individual that is regulated or protected by one or more federal or state information privacy or security laws, including, but not limited to, "Protected Health Information" or "Electronic Protected Health Information" as those terms are defined under HIPAA.

" Post-Closing Tax Period " means any taxable period or portion thereof beginning after the Closing Date.

" Pre-Closing Tax Period " means any taxable period or portion thereof ending on or before the Closing Date and the portion through the end of the Closing Date for any Tax period that includes (but does not end on) the Closing Date.

" Preferred Stock " means the Preferred Stock of the Company, par value $0.01 per share.

" Pro Rata Portion " means, with respect to each Seller, the *pro rata* portion of the Purchase Price allocated to such Seller as set forth in the Allocation Schedule.

" Purchase Price " is defined in Section 2.2 .

" Records " is defined in Section 8.1 .

" Reference Balance Shee t" is defined in Section 3.5 .

" Reference Balance Sheet Date " is defined in Section 3.5 .

" Refund Claim " is defined in Section 8.7.6 .

" Registered Intellectual Property " is defined in Section 3.11.1 .

" Remaining Escrow Property " is defined in Section 11.2.6 .

" Representative " means, with respect to any Person, any director, officer or employee of such Person and any agent, consultant, legal, accounting, financial or other advisor or other representative authorized by such Person to represent or act on behalf of such Person.

" Restricted Cash " means cash reflected on the consolidated balance sheet of the Acquired Companies that has been held back from the sellers in prior acquisitions made by any of the Acquired Companies, in each case to the extent such amounts remain payable to such sellers pursuant to the terms of such prior acquisition agreements. Restricted Cash at September 30, 2014 is set forth in Schedule 1.2(e) hereto.

" Rollover " is defined in the Recitals.

" Rollover Amount " means the aggregate Purchase Price allocable to the shares of Class A Common Stock and Class B Common Stock that will be contributed to HHHH in exchange for HHHH Shares, which aggregate amount, and the portion of such aggregate amount attributable to each Rollover Stock Participant, shall in each case be set forth in the Rollover Schedule that will be delivered to the Buyer on or before December 5, 2014, in accordance with Section 2.1.2 .

" Rollover Schedule " is defined in Section 2.1.2 .

" Rollover Shares " is defined in Section 2.1.2 .

" Rollover Stock Agreement " means the Rollover Stock Agreement, dated as of the date hereof, by and among Parent, HHHH and certain Shareholders party thereto and set forth in Schedule 2.1.2.

" Rollover Stock Participants " means the Shareholders party to the Rollover Stock Agreement.

" Schedules Notice " is defined in Section 8.7.10 .

" Securities " means, collectively, the Shares and the Options.

" Seller Fundamental Representations " means the representations and warranties set forth in Sections 3.1 (Power and Authorization), 3.2 (Organization), 3.3 (Capitalization), 3.20 (Brokers), 4.1 (Organization, Power and Standing), 4.2 (Authorization), 4.3 (Title to Securities) and 4.6 (Brokers).

" Seller Indemnified Parties " is defined in Section 9.3 .

" Sellers " means, collectively, the Shareholders and Optionholders.

" Sellers' Representative " is defined in the Preamble.

" Sellers' Representative Reserve " means $500,000.

" Shareholders " means each holder of Shares as set forth on Schedule 4.3 attached hereto.

" Shares " is defined in the Recitals.

" Sold Shares " means all Shares other than the Rollover Shares.

" Solvent " means, with respect to any Person, as of a given date, that (i) such Person is able to pays its debts as they become due, (ii) such Person owns property that has a fair saleable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities), and (iii) such Person does not have an unreasonably small amount of capital for the business in which it is engaged.

" Specified Representations " is defined in Section 9.1 .

" Stock Option Plan " means the Company's 2012 Stock Option Plan, effective June 29, 2012.

" Straddle Period " means any taxable period that includes but does not end on the Closing Date.

" Subsidiary " of any Person means another Person, of which at least a majority of the securities or ownership interests having by their terms ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions is owned or controlled directly or indirectly by such first Person.

" Tax " means any federal, state, local, or non-U.S. income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

" Tax Proceeding " is defined in Section 8.7.5 .

" Tax Returns " means returns, reports, forms and information statements required to be filed with a Taxing Authority reporting liability for Taxes, including any schedules or attachments thereto and including any amendment thereof.

" Taxing Authority " means any United States, federal, state, local or any foreign or other governmental agency responsible for the imposition, assessment or collection of any Tax.

" Third Party Claim " is defined in Section 9.5.1 .

" Transaction Bonus Payments " means the bonus and other compensatory payments that become payable by the Acquired Companies to their respective employees solely as a result of the consummation of the Contemplated Transactions, together with the employer portions of any payroll Tax that becomes payable at the Closing in connection with such bonuses and payments at Closing to Optionholders.

" Transaction Expenses " means all documented out-of-pocket fees, costs and expenses (excluding, for the avoidance of doubt, Taxes) incurred or otherwise payable by the Acquired Companies in connection with the negotiation, documentation and consummation of the Contemplated Transactions, including the fees and expenses of the Sellers' Representative, Ropes & Gray LLP, Harris Williams & Co. and Deloitte & Touche LLP.

" Transaction Tax Benefits " means any reduction in Taxes (as well as any Tax refund (including by reason of estimated Taxes)) or any Tax credit of the Buyer or any of its Affiliates (including the Acquired Companies) for a Post-Closing Tax Period resulting from a Transaction Tax Deduction or a carryback or carryforward thereof, determined on a "with or without" basis, and, for the avoidance of doubt, only after first taking into account all other losses, deductions and credits of the Buyer for the applicable Post-Closing Tax Period.

" Transaction Tax Deductions " means any Tax deductions relating to (i) the cash-out or exercise of any Options and related payments, (ii) any pay down or satisfaction of Company Indebtedness or other Indebtedness, (iii) the payment of any Transaction Expenses, (iv) the payment of any Transaction Bonus Payments and (v) any other deductible payments attributable to the Contemplated Transactions

economically borne by the Sellers. For this purpose, any success-based fees shall be treated as deductible in accordance with Rev. Proc. 2011-29.

" Transfer Taxes " means any sales, use, stock transfer, value added, real property transfer, real property gains, transfer, stamp, registration, documentary, recording or similar duties or taxes together with any interest thereon, penalties, fines, costs, fees, additions to tax or additional amounts with respect thereto incurred in connection with the Contemplated Transactions.

" Welfare Plan " means a welfare benefit plan within the meaning of Section 3(1) of ERISA.

" Working Capital " means (i) the current assets of the Acquired Companies (consisting solely of those asset account line items specified on Schedule 2.5.1(b) ), excluding all Cash on Hand, Acquisition Cash, Restricted Cash and Income Tax assets, minus (ii) the current liabilities of the Acquired Companies (consisting solely of liability account line items as specified on Schedule 2.5.1(b) ), excluding any amounts payable in respect of Transaction Expenses, Transaction Bonus Payments, Company Indebtedness, Acquisition Liabilities and Income Tax liabilities and any liabilities in respect of Restricted Cash, in each case determined in accordance with the Accounting Principles on a consolidated basis.

" Working Capital Target " means $4,945,669.

" ZPIC Amount " means the estimate of the net discounted accounts receivable of the Acquired Companies for audits by Medicare Zone Program Integrity Contractors as of the Closing Date, which shall be calculated in accordance with the methodology set forth on Schedule 2.2.7 . The ZPIC Amount, calculated as if the date of this Agreement were substituted for the Closing Date, is set forth on Schedule 2.2.7 .

## 2. The Transaction.

2.1. Purchase and Sale of Shares .

2.1.1. At the Closing, and subject to the terms and conditions set forth in this Agreement, each holder of Sold Shares shall sell, transfer and deliver to the Buyer (or the Buyer's designee), free and clear of all Liens, and the Buyer (or the Buyer's designee) shall purchase from each Shareholder, the number of Shares to be listed opposite the name of such Shareholder on Schedule 2.1 . The parties agree that Schedule 2.1 shall be updated by the parties promptly upon the delivery of the Allocation Schedule in accordance with Section 2.5.1 to reflect the applicable number of Sold Shares and Rollover Shares being sold or contributed, as applicable, by each Shareholder.

2.1.2. Concurrently with the execution of this Agreement, the Rollover Stock Participants have entered into the Rollover Stock Agreement, pursuant to which such Rollover Stock Participants will acquire non-voting shares of common stock of HHHH (" HHHH Shares "). The Rollover Stock Agreements provide that (a) effective immediately prior to the Closing, each Rollover Stock Participant will contribute to HHHH the number of Shares to be set forth on Schedule 2.1 opposite the name of such Rollover Stock Participant (collectively, the " Rollover Shares ") which otherwise would be acquired by the Buyer pursuant to this Agreement, and (b) in exchange, HHHH will issue to such Rollover Stock Participant a number of HHHH Shares to be set forth on Schedule 2.1 . On or before December 5, 2014, the Rollover Stock Participants shall deliver to the Buyer a schedule setting forth the Rollover Amount (the " Rollover Schedule ").

2.1.3. The Company and each Seller hereby irrevocably consent to the Rollover, the contribution and exchange with respect to the Rollover Shares, and the consummation of the transactions and form of consideration contemplated by the Rollover Stock Agreements and hereby waive any restrictions on transfer, rights-of-first refusal, participation rights and other rights in connection with the Rollover and the contribution and exchange of the Rollover Shares.

2.1.4. At the Closing, each Option shall be cancelled, and, in consideration therefor, each Optionholder shall have the right to receive a portion of the Purchase Price as set forth in Section 2.4 . Each Optionholder hereby agrees to the cancellation of such Optionholder's Option in exchange for a portion of the Purchase Price as set forth in Section 2.4 .

2.1.5. The Sellers hereby waive all rights that they may have to receive notice with respect to any Change in Ownership or Fundamental Change (as those terms are defined in the Amended and Restated Certificate of Incorporation of the Company) or to require the redemption or conversion of their shares of Common Stock pursuant to such Amended and Restated Certificate of Incorporation.

2.1.6. Each Seller that is a party to that certain Amended and Restated Stockholders Agreement, dated as of August 3, 2007, by and among the Company, Thoma Cressey Fund VIII, L.P., The Northwestern Mutual Life Insurance Company (both for itself and for its Group Annuity Separate Account), CIT Healthcare LLC, Mark O'Brien, Dean Holland, HCHB Consulting, Inc., AGM Children's Homecare, Inc., April Anthony, Tracey Kruse, Dan Peoples, Guy Conces, Luke James, Jennifer Polak, and Robert Thompson (the " 2007 Stockholders Agreement ") hereby consents to the termination of the 2007 Stockholders Agreement, effective as of the Closing Date.

2.2. Purchase Price . The aggregate consideration for the purchase and sale of the Shares (including for the purpose of this calculation the Rollover Shares) and the cancellation of the Options pursuant to this Agreement will be an amount in cash (such aggregate consideration, the " Purchase Price ") calculated as follows:

2.2.1. $750,000,000 (the " Base Purchase Price ");

2.2.2. *minus* the Company Indebtedness;

2.2.3. *minus* the amount of the Transaction Expenses that are not paid by the Company prior to the Closing;

2.2.4. *minus* the amount of the Transaction Bonus Payments that are not paid by the Company prior to the Closing;

2.2.5. plus the Estimated Cash on Hand Amount;

2.2.6. plus the amount, if any, by which the Estimated Working Capital Amount exceeds the Working Capital Target; or minus the amount, if any, by which the Estimated Working Capital Amount is less than the Working Capital Target;

2.2.7. plus the ZPIC Amount, which shall be determined by the Company in good faith in accordance with the method used in in Schedule 2.2.7 , following consultation with the Buyer not later than three (3) Business Days prior to the Closing Date.

The Purchase Price shall be subject to adjustment in accordance with the terms of this Agreement, including in accordance with Section 2.5 . As used herein, the term " Equity Purchase Price " means the product of (i) the Purchase Price multiplied by (ii) a fraction, the numerator of which is the aggregate number of shares of Common Stock outstanding as of immediately prior to the Closing, on a fully diluted (and as-converted) basis, excluding the Rollover Shares, and the denominator of which is the aggregate number of shares of Common Stock outstanding as of immediately prior to the Closing, on a fully diluted (and as-converted) basis, including the Rollover Shares. For the avoidance of doubt, in calculating the aggregate number of shares of Common Stock outstanding as of immediately prior to the Closing, all Options that are "in the money" shall be treated as exercised.

2.3. The Closing . Subject to the terms and conditions hereof, the closing of the purchase and sale of the Shares pursuant to this Agreement (the " Closing ") shall take place at 10:00 a.m. (local time) at the offices of Ropes & Gray LLP, 191 North Wacker Drive, 32nd Floor, Chicago, Illinois 60606, as promptly as practicable following, but in no event later than the third (3 rd ) Business Day following, the satisfaction or waiver of each of the conditions set forth in Sections 6 and 7 hereof (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions at Closing), or at such other time and place as the Buyer and the Sellers' Representative may agree in writing (the day on which the Closing takes place, the " Closing Date "); provided that, if such Closing Date would otherwise take place prior to December 31, 2014 pursuant to the terms of this Agreement, such Closing Date shall instead take place on (and no later than) December 31, 2014, without regard to the three (3) Business Day period set forth in this sentence. Subject to the provisions of Section 10 , the failure of any party to consummate the Closing on the date and time determined pursuant to this Section 2.3 shall not result in the termination of this Agreement and shall not relieve such party of any obligation under this Agreement.

2.4. Closing Deliveries and Payments .

2.4.1. Buyer Closing Deliveries and Payments . At the Closing, the Buyer shall deliver or cause to be delivered the following:

(a) to each Shareholder, in respect of Shares other than Rollover Shares held by such Shareholder, by wire transfer of immediately available funds to an account designated in writing by such Shareholder (or by the Company or the Sellers' Representative on behalf of such Shareholder) to the Buyer not less than two (2) Business Days prior to the Closing Date, an amount in cash equal to (i) such Shareholder's allocable portion of the Equity Purchase Price, *minus* (ii) such Shareholder's allocable portion of the Escrow Amount, *minus* (iii) such Shareholder's allocable portion of the Sellers' Representative Reserve, in each case as set forth on the Allocation Schedule;

(b) to the Company, for further processing through payroll, by wire transfer of immediately available funds to an account designated in writing by the Company to the Buyer no less than two (2) Business Days prior to the Closing Date, an amount in cash equal to (i) each Optionholder's allocable portion of the Equity Purchase Price, *minus* (ii) such Optionholder's allocable portion of the Escrow Amount, *minus* (iii) such Optionholder's allocable portion of the Sellers' Representative Reserve, in each case as set forth on the Allocation Schedule;

(c) to accounts specified by the Company at least two (2) Business Days prior to the Closing Date, by wire transfer of immediately available funds, such cash

amounts as are necessary to discharge in full any outstanding amount of Indebtedness of the Acquired Companies pursuant to the Credit Agreement;

(d) to accounts specified by the Company at least two (2) Business Days prior to the Closing Date, by wire transfer of immediately available funds, such cash amounts as are necessary to pay in full the Transaction Expenses;

(e) to the Company, for further processing through payroll, by wire transfer of immediately available funds to an account designated in writing by the Company to the Buyer no less than two (2) Business Days prior to the Closing Date, such cash amounts as are necessary to pay in full each of the Transaction Bonus Payments;

(f) to the Escrow Agent, by wire transfer of immediately available funds, the Escrow Amount to be deposited into the Escrow Account;

(g) to an account specified by the Sellers' Representative at least two (2) Business Days prior to the Closing Date, by wire transfer of immediately available funds, the Sellers' Representative Reserve to be held by the Sellers' Representative pursuant to Section 11.2.6 ; and

(h) the various certificates, instruments and documents referred to in Section 7 .

2.4.2. Company Closing Deliveries . At the Closing, the Company shall deliver or cause to be delivered to the Buyer, the various certificates, instruments and documents referred to in Section 6 and Section 8.7.10 .

2.4.3. Shareholder Closing Deliveries . At the Closing, each Shareholder shall deliver or cause to be delivered to the Buyer, with respect to all Shares to be sold by such Shareholder hereunder, (a) certificate(s) representing such Shares, duly endorsed (or accompanied by duly executed transfer powers) for transfer to the Buyer or (b) to the extent any certificate(s) representing such Shares have been lost, stolen or destroyed, an affidavit of that fact by such Shareholder claiming such certificate(s) to be lost, stolen or destroyed and an agreement to indemnify and hold harmless the Buyer from and against any claim that may be made against the Buyer with respect to the certificate(s) alleged to have been lost, stolen or destroyed (without any requirement to post a bond in respect thereof).

2.5. Purchase Price Adjustment .

2.5.1. Estimated Balance Sheet and Estimated Closing Statement . The Company will in good faith prepare and deliver, or cause to be prepared and delivered, to the Buyer not later than three (3) Business Days prior to the Closing Date, (a) an estimated, unaudited consolidated balance sheet of the Company (the " Estimated Closing Balance Sheet ") as of 11:59 p.m. Dallas time on the Business Day immediately preceding the Closing Date (the " Balance Sheet Time "), (b) a written statement setting forth the Company Indebtedness (the " Estimated Company Indebtedness "), including (x) in the case of the Indebtedness pursuant to the Credit Agreement, the amount required to be paid pursuant to Section 2.4.1(c) as set forth in the payoff letter delivered with respect thereto, and (y) in the case of other items of Indebtedness, the identity of the lender, administrative agent, or counterparty thereof, and the aggregate principal and interest outstanding as of the Balance Sheet Time, (c) a written statement derived from the Estimated Closing Balance Sheet (the " Estimated Closing Statement ") setting forth

in reasonable detail the Company's good faith estimates of (i) Transaction Expenses (listed by payee) (the " Estimated Transaction Expenses "), (ii) Transaction Bonus Payments (listed by payee) (the " Estimated Transaction Bonus Payments "), (iii) Working Capital (the " Estimated Working Capital Amount ") and (iv) Cash on Hand (the " Estimated Cash on Hand Amount "), in the case of clauses (iii) and (iv), as of the Balance Sheet Time as derived from the Estimated Closing Balance Sheet in accordance with the Accounting Principles, and (d) the Allocation Schedule. The Estimated Closing Balance Sheet, Estimated Company Indebtedness, Estimated Transaction Bonus Payments, Estimated Transaction Expenses, Estimated Working Capital Amount, and Estimated Cash on Hand Amount set forth in the Estimated Closing Statement (x) will be prepared in accordance with the definitions thereof and the Accounting Principles in a manner and on a basis consistent with the preparation of the sample balance sheet attached as Schedule 2.5.1(a) hereto (which, solely for illustration purposes, assumes the Closing occurred on September 30, 2014) and (y) will disregard any and all effects on the assets and liabilities of the Acquired Companies as a result of the Contemplated Transactions (including any financing arrangements entered into by the Buyer or any of its Affiliates in connection with the Contemplated Transactions). The Sellers' Representative shall provide the Buyer and its Representatives reasonable and prompt access to the work papers used in the preparation of the Estimated Closing Statement and Estimated Company Indebtedness upon the Buyer's request and shall consult in good faith with the Buyer regarding the implementation of any reasonable revisions to the calculations set forth in the Estimated Closing Statement and Estimated Company Indebtedness proposed by the Buyer. The Estimated Closing Balance Sheet, Estimated Company Indebtedness, Estimated Transaction Bonus Payments, Estimated Transaction Expenses, Estimated Working Capital Amount and Estimated Cash on Hand Amount set forth in the Estimated Closing Statement shall be conclusive for purposes of the calculation of the Purchase Price payable at the Closing, but shall be subject to adjustment after the Closing pursuant to this Section 2.5 .

2.5.2. Closing Balance Sheet and Closing Statement . As promptly as practicable, but in any event within sixty (60) days after the Closing Date, the Buyer will in good faith prepare or cause to be prepared, and will provide to the Sellers' Representative, an unaudited consolidated balance sheet of the Company as of the Balance Sheet Time (the " Closing Balance Sheet "), together with a written statement (the " Closing Statement ") setting forth in reasonable detail the Buyer's determinations of (i) Company Indebtedness, (ii) Transaction Expenses, (iii) Transaction Bonus Payments, (iv) Working Capital, and (v) Cash on Hand, in the case of clauses (iv) and (v), as of the Balance Sheet Time as derived from the Closing Balance Sheet in accordance with the definitions thereof and the Accounting Principles. The Closing Balance Sheet and the Closing Statement (a) will be prepared in accordance with the Accounting Principles on a basis and in a manner consistent with the preparation of the Estimated Closing Balance Sheet and the Estimated Closing Statement and (b) will disregard (i) any and all effects on the assets and liabilities of the Acquired Companies as a result of the Contemplated Transactions (including any financing arrangements entered into by the Buyer or any of its Affiliates in connection with the Contemplated Transactions) and (ii) any of the plans, transactions or charges which the Buyer intends to initiate or make or cause to be initiated or made after the Closing with respect to the Acquired Companies or their business or assets, or any facts or circumstances that are unique or particular to the Buyer or any of its assets or liabilities.

2.5.3. Dispute Notice . The Closing Balance Sheet and the Closing Statement (and the determinations of the Company Indebtedness, Transaction Expenses, Transaction Bonus Payments, Working Capital, and Cash on Hand reflected on the Closing Statement) will be final, conclusive and binding on the parties unless the Sellers' Representative provides a written notice (a " Dispute Notice ") to the Buyer no later than forty-five (45) days after delivery of the Closing Balance Sheet and the Closing Statement setting forth in reasonable detail any item(s) or amount(s) on the Closing Balance

Sheet and/or the Closing Statement that are disputed by the Sellers' Representative (each, a " Disputed Item "). Any item or amount on the Closing Balance Sheet or the Closing Statement to which no dispute is raised in the Dispute Notice will be final, conclusive and binding on the parties. The Buyer shall promptly make available, and shall cause the Acquired Companies to promptly make available, to the Sellers' Representative and its Representatives, and shall provide the opportunity to make copies of, the work papers and other materials used or considered by the Buyer in the preparation of the Closing Balance Sheet and the Closing Statement, and shall provide reasonable access to personnel and Representatives of the Buyer and the Acquired Companies who assisted or were consulted in the preparation of the Closing Balance Sheet and the Closing Statement.

2.5.4. Resolution of Disputes . The Buyer and the Sellers' Representative will attempt to resolve the Disputed Items in good faith during the twenty (20) day period following delivery of the Dispute Notice and all such discussions will (unless otherwise agreed by the Buyer and the Sellers' Representative) be governed by Rule 408 of the Federal Rules of Evidence and any comparable applicable state rule. Disputed Items resolved in writing by the Sellers' Representative and the Buyer within the twenty (20) day period will be final, conclusive and binding on the parties. If the Buyer and the Sellers' Representative are unable to resolve any Disputed Items in the Dispute Notice within such twenty (20) day period, either the Buyer or the Sellers' Representative may provide written notice to the other (the " Dispute Submission Notice ") that such party is submitting such Disputed Items for resolution to the Independent Referee . The Buyer and Sellers' Representative shall enter into a customary engagement letter with the Independent Referee. The Buyer and the Sellers' Representative will use their commercially reasonable efforts to cause the Independent Referee to render its decision as soon as practicable (but in any event within thirty (30) days) after the submission to the Independent Referee of their respective proposed final calculations of the Disputed Items (which the Buyer and the Sellers' Representative shall submit to the Independent Referee not later than ten (10) days following the giving of the Dispute Submission Notice). Each of the Buyer and the Sellers' Representative shall, and the Buyer shall cause the Company to, use reasonable best efforts to comply with all reasonable requests by the Independent Referee for access to their respective work papers, information, books, records and similar items, personnel and Representatives. The Independent Referee will review such final calculations of the Disputed Items and render a final determination of all Disputed Items in accordance with this Agreement, provided that the Independent Referee's final determination with respect to each Disputed Item shall be within the range of the proposed final calculations of such Disputed Item as presented in the Buyer's Closing Balance Sheet and/or Closing Statement pursuant to Section 2.5.2 and the Sellers' Representative's Dispute Notice pursuant to Section 2.5.3 . The Buyer and the Sellers' Representative each shall be entitled to make a written submission to the Independent Referee in support of its respective proposed final calculations of the submitted Disputed Items, provided that such submissions shall be submitted within twenty (20) days after the submission to the Independent Referee of such proposed final calculations of the submitted Disputed Items. The Independent Referee's determination will be (a) in writing and shall include a reasonably detailed statement of the basis for the Independent Referee's decision, (b) furnished to each of the Buyer and the Sellers' Representative as soon as practicable (but in any event within thirty (30) days) after the Sellers' Representative's and the Buyer's respective final calculations of the Disputed Items have been submitted to the Independent Referee, (c) limited in scope to the Disputed Items and (d) final, conclusive and binding on the parties, and judgment on such decision may be entered in any court of competent jurisdiction. The fees and expenses of the Independent Referee shall be borne by (i) the Sellers' Representative, on the one hand, and (ii) the Buyer, on the other hand, based on the percentage that the portion of the contested amount not awarded to each party bears to the amount actually contested by the parties in aggregate, and such allocation of fees and expenses shall be calculated by the Independent Referee and such calculation shall be final and binding on the parties. By way of

illustration, (x) if the Buyer's calculations would have resulted in a $1,000,000 net payment to the Buyer, and the Sellers' Representative's calculations would have resulted in a $1,000,000 net payment to the Sellers and the Independent Referee's final determination results in an aggregate net payment of $500,000 to the Sellers, then the Buyer and the Sellers shall pay 75% and 25%, respectively, of such fees and expenses and (y) if each of such parties' calculations differs from the Independent Referee's calculation by $1,000,000, the Buyer and the Sellers shall split such fees and expenses evenly. At any time the Buyer and the Sellers' Representative may agree to settle any objections raised in the Dispute Notice, including any Disputed Items submitted to the Independent Referee, which agreement shall be in writing and final, conclusive and binding upon all of the parties hereto with respect to the subject matter of any such objection so resolved; provided that the parties shall promptly provide a copy of such agreement to the Independent Referee and instruct the Independent Referee not to resolve such Disputed Item, it being agreed that if the Independent Referee nonetheless resolves such Disputed Item for any reason, the agreement of the parties shall control.

2.5.5. Post-Closing Purchase Price Adjustment. As promptly as possible, but in any event no later than the fifth (5th) Business Day following the final determination, in accordance with Section 2.5.3 and/or Section 2.5.4, of Company Indebtedness, Transaction Expenses, Transaction Bonus Payments, Working Capital, and Cash on Hand (respectively, the "Final Company Indebtedness", "Final Transaction Expenses", "Final Transaction Bonus Payments", "Final Working Capital Amount," and "Final Cash on Hand Amount"), a Purchase Price adjustment shall be made as follows:

(a) if (i) the sum of (A) the Final Working Capital Amount, *plus* (B) the Final Cash on Hand Amount, *minus* (C) the Final Transaction Expenses, *minus* (D) the Final Transaction Bonus Payments, *minus* (E) the Final Company Indebtedness is less than (ii) the sum of (A) the Estimated Working Capital Amount, *plus* (B) the Estimated Cash on Hand Amount, *minus* (C) the Estimated Transaction Expenses, *minus* (D) the Estimated Transaction Bonus Payments, *minus* (E) the Estimated Company Indebtedness, then the Purchase Price will be reduced by an amount equal to such shortfall, and such shortfall amount shall be paid to the Buyer from the Escrow Account in accordance with the terms of the Escrow Agreement; or

(b) if (i) the sum of (A) the Final Working Capital Amount, *plus* (B) the Final Cash on Hand Amount, *minus* (C) the Final Transaction Expenses, *minus* (D) the Final Transaction Bonus Payments, *minus* (E) the Final Company Indebtedness is greater than (ii) the sum of (A) the Estimated Working Capital Amount, *plus* (B) the Estimated Cash on Hand Amount, *minus* (C) the Estimated Transaction Expenses, *minus* (D) the Estimated Transaction Bonus Payments, *minus* (E) the Estimated Company Indebtedness, then the Purchase Price will be increased by an amount equal to such excess and the Buyer will pay such excess amount to the Sellers (in accordance with the Allocation Schedule) within five (5) Business Days after the determination of such excess amount by wire transfer of immediately available funds to the accounts specified by the Sellers' Representative; provided that any payments in respect of Options shall be paid to the Company for further distribution to the Optionholders (in accordance with the Allocation Schedule), net of the amount, if any, required to be withheld under applicable Tax laws with respect to such payment.

2.6. Withholding Rights. The applicable party shall be entitled to deduct and withhold from the Purchase Price such amounts as it is required to deduct and withhold with respect to the making of such payments under the Code or any provision of applicable Tax law. To the extent that amounts are so withheld,

such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the applicable party in respect of which such deduction and withholding was made.

## 3. Representations and Warranties of the Company.

Except as provided in the Disclosure Schedules, the Company represents and warrants to the Buyer as of the date hereof and as of the Closing Date as follows:

3.1. Power and Authorization . The Company has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the Contemplated Transactions. The Company has taken all corporate actions or proceedings required to be taken by or on the part of the Company to authorize and permit the execution and delivery by the Company of this Agreement and the instruments required to be executed and delivered by it pursuant hereto, and the performance by the Company of its obligations hereunder and the consummation by the Company of the Contemplated Transactions, and no other corporate or other action or proceeding on the part of any of the Acquired Companies is necessary for the execution and delivery of this Agreement by the Company or for the performance by the Company of its obligations under this Agreement and the consummation of the Contemplated Transactions. This Agreement has been duly executed and delivered by the Company, and assuming the due authorization, execution and delivery by each of the other parties hereto, constitutes the legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' right generally and by general equitable principles.

3.2. Organization .

3.2.1. Each of the Acquired Companies is (a) duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and (b) duly qualified or licensed to do business in each jurisdiction where the character of the properties owned, leased or licensed by it or the nature of its business makes such qualification or licensing necessary, except where the failure to be so qualified or licensed or in good standing has not had, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

3.2.2. The Company has furnished or made available to Buyer a copy of the Organizational Documents and any stockholders' agreement, as amended or restated to date and as in full effect as of the date of this Agreement, of each of the Acquired Companies. None of the Acquired Companies is in violation of any provision of its Organizational Documents or such stockholders' agreement.

3.3. Capitalization .

3.3.1. The entire authorized capital stock of the Company consists of 15,000 shares of Preferred Stock, 260,000 shares of Class A Common Stock, 160,000 shares of Class B Common Stock, 65,000 shares of Class C Common Stock and 2,600,000 shares of Class D Common Stock, of which no shares of Preferred Stock, 139,375 shares of Class A Common Stock, 117,031 shares of Class B Common Stock, 60,756 shares of Class C Common Stock and no shares of Class D Common Stock are issued and outstanding. All of the issued and outstanding shares of capital stock of the Company are duly authorized, validly issued, are fully paid and non-assessable, have been issued in compliance with all applicable Legal Requirements, and have not been issued in violation of any preemptive rights. In connection with the Closing, after taking into account the portion of the Equity Purchase Price paid

to the holders of Class A Common Stock in satisfaction of the aggregate Liquidation Value (as defined in the Company's certificate of incorporation) of such shares (including all accumulated accrued and unpaid dividends thereon), the outstanding shares of Class A Common Stock will not be converted into shares of Class D Common Stock or into any other class of stock but shall be treated for purposes of this Agreement as if converted into 1,393,750 shares of Class D Common Stock. All of such issued and outstanding shares of Common Stock are duly authorized, validly issued, are fully paid and non-assessable. Other than with respect to the Liquidation Value payable to the Class A Common Stock that will be satisfied at Closing, there are no dividends or preferential payments that have accrued or been declared but are unpaid on any capital stock of the Company. The Class B Stock and the Class C Stock will not be converted into shares of Class D Stock or any other class of stock in connection with or as a result of the Contemplated Transactions. The Allocation Schedule will be true, accurate and complete upon delivery not later than three (3) Business Days prior to the Closing Date.

3.3.2. Schedule 3.3.2 sets forth the entire outstanding capital stock or other equity interest of each Subsidiary of the Company, together with the record owner thereof. All such issued and outstanding shares of capital stock and equity interests (as applicable) of each such Subsidiary of the Company are owned (beneficially and of record) by the Company or another Subsidiary, free and clear of any Lien, other than Liens contemplated by clause (h) of the definition of "Permitted Liens". There are no outstanding offers, options, warrants, rights, convertible or exchangeable securities, "phantom" stock rights, stock appreciation rights, stock based performance units, undertakings, agreements, or commitments of any kind (contingent or otherwise), including employee benefit arrangements, relating to the issuance, conversion, registration, voting, sale, repurchase, or transfer of any equity interests or other securities of any Subsidiary of the Company or obligating any Subsidiary of the Company or any other Person to purchase or redeem any such equity interests or other securities. All of the outstanding equity interests of each Subsidiary of the Company are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance with all applicable Legal Requirements, and have not been issued in violation of any preemptive rights. There are no dividends or preferential payments that have accrued or been declared but are unpaid on any capital stock or other equity interest of any Subsidiary of the Company.

3.3.3. 75,392 shares of Class D Common Stock are reserved for issuance under the Stock Option Plan (of which 47,394 shares of Class D Common Stock are subject to options granted and outstanding thereunder). Except as set forth in the immediately preceding sentence and the rights of the Class A Common Stock to convert into shares of Class D Common Stock referenced in Section 3.3.1 , there are no outstanding options, warrants or other rights of any Person to acquire any Shares or any other equity securities of, or any equity interests in, the Acquired Companies, or securities exercisable or exchangeable for, or convertible into, equity securities of, or equity interests in, the Acquired Companies or obligating the Company or any other Person to purchase or redeem any such equity interests or other securities.

3.3.4. Schedule 3.3.4 sets forth a list of each Acquired Company and its respective jurisdiction of organization. None of the Acquired Companies owns any equity securities of or interests in any other Person (other than another Acquired Company).

3.4. No Violation or Approval; Consents . Except as set forth in Schedule 3.4 , neither the execution and delivery of this Agreement by the Company nor its consummation of the Contemplated Transactions will:

3.4.1. require any consent, waiver, approval, order or authorization of, or filing with, any Governmental Authority, other than (a) required filings under the HSR Act and the expiration or termination of any applicable waiting period thereunder and (b) the consents set forth in Schedule 3.4 ;

3.4.2. result in a material breach, violation or termination of, or acceleration of obligations under, or material default under, or require the consent of any third party under any Material Contract to which an Acquired Company is party or any Governmental Order to which an Acquired Company is subject;

3.4.3. give rise to the imposition of any Lien (other than a Permitted Lien) on any of the assets or properties of any of the Acquired Companies; or

3.4.4. result in a breach or violation of, or default under, the Organizational Documents of the Company or any Subsidiary of the Company.

3.5. Financial Statements, Etc .

3.5.1. The Company has furnished the Buyer with copies of: (a) the audited consolidated balance sheet of the Acquired Companies as of December 31, 2013, including the notes thereto, and the related consolidated statements of income and cash flows of the Acquired Companies for the fiscal year then ended (the " Annual Financial Statements "), and (b) the unaudited consolidated balance sheet of the Acquired Companies as of September 30, 2014 (respectively, the " Reference Balance Sheet ," and the " Reference Balance Sheet Date ") and the related consolidated statements of income and cash flows of the Acquired Companies for such nine (9) month period (the " Interim Financial Statements " and, collectively with the Annual Financial Statements, the " Financial Statements "). Correct and complete copies of the Financial Statements are set forth in Schedule 3.5 . The Financial Statements (i) present fairly in all material respects the consolidated financial position of the Acquired Companies and the consolidated results of operations of the Acquired Companies as of the respective dates thereof and for the periods covered thereby and (ii) except as disclosed in Schedule 3.5 , were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby, subject to changes resulting from year-end adjustments in accordance with the Accounting Principles and the absence of footnote disclosures. Except as disclosed in Schedule 3.5 , none of the Acquired Companies has any material liabilities of a type required by GAAP to be set forth on, or reserved against in, a consolidated balance sheet of the Acquired Companies, except for (x) liabilities reflected or reserved against in the Financial Statements, (y) liabilities incurred in the ordinary course of business, consistent with past practice, since the Reference Balance Sheet Date or in connection with the Contemplated Transactions and (z) performance obligations arising pursuant to the terms of any Contract to which any Acquired Company is a party that have not yet been performed (but excluding any breach of Contract, infringement or violation of Legal Requirements).

3.5.2. The Company has designed, and operated in all material respects in accordance with, disclosure controls and procedures, including systems of internal controls over financial reporting, that are designed to comply with applicable Legal Requirements to provide reasonable assurance that material information relating to the Business is made known to the management of the Business by others within the Business as necessary to permit the accurate preparation of financial statements in accordance with GAAP.

3.6. Ordinary Course of Business; No Material Adverse Effect . Since the Reference Balance Sheet Date: (a) the Acquired Companies have operated in the ordinary course of business, consistent with past

practice; (b) none of the Acquired Companies has engaged in or taken any action (or entered into any Contract to engage in or take any such action) which would be prohibited by Section 8.2 if taken after the date hereof; and (c) there has not occurred, nor has there been any change, event, circumstance or effect that has had, or would reasonably be expected to have, a Material Adverse Effect or that would prevent or materially impair or materially delay the ability of the Company to perform its obligations under this Agreement or to consummate the Contemplated Transactions.

3.7. Taxes . Except in each case as set forth on Schedule 3.7 :

3.7.1. Each of the Acquired Companies has timely filed, or has caused to be timely filed on its behalf (after giving effect to extensions), all material Tax Returns required to be filed by it, and all such Tax Returns were correct and complete in all material respects. All material Taxes due and payable have been paid in full.

3.7.2. All material amounts of Taxes required to have been withheld and paid in connection with amounts paid, or deemed paid, by any Acquired Company to any employee, independent contractor, creditor or third party have been withheld and paid to the appropriate Taxing Authority.

3.7.3. No federal, state, local, or non-U.S. tax audits or administrative or judicial Tax proceedings are pending or being conducted with respect to any Acquired Company. No Acquired Company has received from any federal, state, local, or non-U.S. taxing authority (including jurisdictions where the Acquired Company has not filed Tax Returns) any (a) notice indicating an intent to open an audit or other review, (b) request for information related to Tax matters, or (c) notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted, or assessed by any taxing authority against any Acquired Company.

3.7.4. There has been no waiver or extension regarding the application of any statute of limitations in respect of Taxes of any Acquired Company that remains in effect. For the avoidance of doubt, an ordinary course extension to file a Tax Return shall not be considered a waiver or extension for purposes of this provision.

3.7.5. No Acquired Company is currently subject to any Liens, other than Permitted Liens, imposed on any of its assets or properties as a result of the failure of such Acquired Company to pay any material amount of Taxes that are due and payable.

3.7.6. No Acquired Company is party to or bound by any Tax sharing agreement other than any such agreement not primarily related to Taxes, and no Acquired Company has made a sale or disposition of an entity (or entities) in a transaction pursuant to which it is required, under a contractual provision still in effect, to indemnify any other party for Taxes.

3.7.7. No Acquired Company is or has been a member of an “affiliated group” as defined in Section 1504 of the Code, or any comparable group under state, local or foreign Tax Law, except for any such group the parent of which is an Acquired Company, and no Acquired Company has any liability for or relating to Taxes of any Person (other than the Acquired Companies) under Treasury Regulations Section 1.1502-6, or similar provision of state, local or foreign Tax Law.

3.7.8. None of the Acquired Companies has participated in (A) any “Listed Transaction” within the meaning of Treasury Regulation Section 1.6011-4(b)(2) or, (B) since January 1, 2011, any other “Reportable Transaction” within the meaning of Treasury Regulation Section 1.6011-4(b).

3.7.9. None of the Acquired Companies will be required to include any item of income or exclude any item of deduction for any Tax period (or portion thereof), beginning after the Closing Date, as a result of (i) an adjustment pursuant to Section 481(a) of the Code (or any similar provision of state, local or non-United States law) that occurred in a Pre-Closing Tax Period, or (ii) (A) any “closing agreement” described in Section 7121 of the Code (or any similar provision of state, local or non-United States law) entered into prior to Closing, (B) installment sale entered into prior to the Closing (except for an installment sale where the relevant deferred payment or payments is or are to be received following the Closing) or prepaid amount, in each case received outside the ordinary course of business or (C) election pursuant to Section 108(i) of the Code (or any similar provision of state, local or non-United States Law).

Notwithstanding anything to the contrary in this Agreement, (i) this Section 3.7 and Section 3.10 contain the sole and exclusive representations and warranties of the Company regarding Taxes, Tax Returns and other matters relating to Taxes and (ii) nothing in this Agreement (including Section 3.7 and Section 3.10 ) shall be construed as providing a representation or warranty with respect to the existence, amount, expiration date or limitations on (or availability of) any Tax attribute of the Acquired Companies (including methods of accounting of the Acquired Companies).

3.8. Real Estate .

3.8.1. Owned Premises . No Acquired Company owns any real property.

3.8.2. Leases .

(a) Schedule 3.8.2(a) sets forth a correct and complete list of all leases of real property currently in effect to which any Acquired Company is a party, including all amendments, extensions, and renewals thereto (the “ Leases ”). The Company has delivered or made available to the Buyer correct and complete copies of the Leases.

(b) Except as set forth on Schedule 3.8.2(b) hereto, as of the date hereof, (i) the Company or one of its Subsidiaries possesses good and valid leasehold interests as tenant in the real property subject to the Leases, free and clear of all Liens, other than Permitted Liens and subject to matters that affect the fee title, (ii) each of the Leases is a valid and binding agreement of the applicable Acquired Company, enforceable in accordance with its terms, and is in full force and effect, (iii) the applicable Acquired Company is not and, to the Company’s Knowledge, no other party is in material default under, or in material breach or violation of, any Lease and (iv) no event has occurred on or prior to the date hereof that (with or without notice, lapse of time or both) would constitute a material default by the applicable Acquired Company or, to the Company’s Knowledge, any other party under any Lease.

3.9. Operations in Conformity with Laws . The Acquired Companies are, and since December 31, 2011, have been, in compliance in all material respects with all Legal Requirements applicable to the Acquired Companies. None of the Acquired Companies has received any written notice from any Governmental Authority since December 31, 2011, regarding any material violation of any Legal Requirement applicable to the Business, and no order, writ, injunction, judgment, decree, ruling, determination, or directive has been issued by any Governmental Authority which is applicable to, or otherwise affects, any of the Acquired Companies or its or their respective businesses or material assets, properties or rights under which any Acquired Company is in material default or violation.

This Section 3.9 does not relate to, or make any representation or warranty with respect to, matters with respect to employee benefits, which are the subject of Section 3.10 , matters with respect to Healthcare Laws, which are the subject of Section 3.12 , or to Environmental Laws or Hazardous Substances, which are the subject of Section 3.13 .

3.10. Benefit Plans .

3.10.1. Company Plans . Schedule 3.10.1 sets forth a list of all Employee Plans that are maintained by the Acquired Companies or to which any of the Acquired Companies contribute or are required to contribute and that benefit any current or former employee or director of the Acquired Companies (each a " Company Plan ").

3.10.2. Plan Qualification; Plan Administration . Except as set forth on Schedule 3.10.2 , (a) each Company Plan that is intended to be qualified under Section 401(a) of the Code either has received a favorable determination or opinion letter or filed for a determination or opinion letter to the effect that the form of such plan is so qualified or the applicable period for requesting such determination or opinion has not yet expired; (b) to the Company's Knowledge, no events have occurred that could reasonably be expected to cause any such Company Plan to fail to be qualified under Section 401(a) of the Code; and (c) each Company Plan has been administered in compliance in all material respects with its terms and applicable Legal Requirements.

3.10.3. All Contributions and Premiums Paid . All material required contributions, assessments and premium payments on account of each Company Plan have been timely paid by the applicable due date or accrued in accordance with GAAP.

3.10.4. Claims . With respect to each Company Plan, there are no material existing (or, to the Company's Knowledge, threatened) Actions other than routine claims for benefits in the ordinary course of business.

3.10.5. No Liability . Except as set forth in Schedule 3.10.5 , neither the Company nor any other entity that together with the Company is deemed a single employer under Section 414 of the Code or Section 4001(b) of ERISA maintains or has any liability (contingent or otherwise) in respect of an arrangement that is or was (a) subject to Title IV of ERISA or Section 412 of the Code, (b) a "multiemployer plan," as such term is defined in Section 3(37) or 4001(a)(3) of ERISA, (c) a "multiple employer" plan within the meaning of Section 413(c) of the Code, or (d) a "multiple employer welfare arrangement," as such term is defined in Section 3(40) of ERISA.

3.10.6. Retiree Benefits; Certain Welfare Plans . Except as set forth on Schedule 3.10.6 or as required under Section 601 *et seq* . of ERISA or Section 4980B of the Code or any analogous state or local Legal Requirement, no Company Plan that is a Welfare Plan provides benefits or coverage following retirement or other termination of employment.

3.10.7. Section 409A . Each Company Plan that is a "nonqualified deferred compensation plan" (within the meaning of Section 409A of the Code) has been operated in all material respects in accordance with the provisions of Section 409A of the Code. Each Option is intended to be exempt from the requirements of Section 409A of the Code and was granted with an exercise price that was not less than the fair market value of the underlying Shares on the date of grant.

3.10.8. Increased Benefits . Except as provided in Schedule 3.10.8 , the Contemplated Transactions (whether alone or together with any other event) will not (a) entitle any current or former employee or director of any Acquired Company to severance pay or any other payment, (b) accelerate the time of payment or vesting, or increase the amount, of compensation due any such current or former employee or director or (c) could result, separately or in the aggregate, in the payment of any "excess parachute payments" (within the meaning of Section 280G(b)(1) of the Code) to any current or former employee or director of any Acquired Company. No Person is entitled to receive any tax gross-up payment from any Acquired Company by reason of the excise tax under Section 4999(a) of the Code or the additional tax under Section 409A of the Code being imposed on such Person by reason of the Contemplated Transactions.

3.11. Intellectual Property .

3.11.1. Schedule 3.11.1 sets forth a correct and complete list of all Intellectual Property owned by the Acquired Companies that is issued or registered or subject to pending applications for issuance or registration in the name of the Acquired Companies (the " Registered Intellectual Property "). The Intellectual Property set forth on Schedule 3.11.1 is subsisting and valid and enforceable.

3.11.2. Except as set forth on Schedule 3.11.2 : (i) an Acquired Company is the exclusive owner of the Registered Intellectual Property owned by such Acquired Company, as applicable, free and clear of all Liens (other than Permitted Liens); (ii) no Actions have been instituted, are pending or, to the Company's Knowledge, are threatened that challenge the validity or enforceability of the Intellectual Property owned by the Acquired Companies; (iii) neither the use of the Intellectual Property by the Acquired Companies in the current conduct of the Business, nor the conduct of the Business as presently conducted, nor the conduct of the Business as conducted since December 31, 2011, infringes, misappropriates or violates, or has infringed, misappropriated or violated, the intellectual property rights of any Person, and none of the Acquired Companies has received any written complaint, claim, demand or notice in the past three (3) years alleging any of the same; and (iv) to the Company's Knowledge, no Person has materially infringed upon or misappropriated or otherwise violated any of the Intellectual Property owned, used, or held for use by the Acquired Companies, and no such claims have been asserted or threatened against any Person by any Acquired Company.

3.11.3. With respect to the use of software in the Business owned by or material to the Acquired Companies, (a) none of the Acquired Companies has experienced any material defect in such software, including any material error or omission in the processing of any transactions other than defects which have been corrected, and (b) to the Company' Knowledge, no such software contains any device or feature designed to disrupt, disable, or otherwise impair the functioning of any such software other than at the end of the applicable paid subscription periods in the ordinary course.

3.12. Healthcare Matters .

3.12.1. Except as set forth on Schedule 3.12.1 , the Business is, and since December 31, 2011 has been conducted, in compliance in all material respects with all Healthcare Laws. Except as set forth on Schedule 3.12.1 , none of the Acquired Companies has received any written notice from any Governmental Authority since December 31, 2011, regarding any material violation of any Healthcare Laws.

3.12.2. The Acquired Companies possess all material Permits required by all applicable Healthcare Laws necessary for the operation of the Business. The Acquired Companies are, and since

December 31, 2011, have been, in compliance in all material respects with such material Permits, and all of such material Permits are valid and in full force and effect. There is no Action pending or, to the Company's Knowledge, threatened against, and there is no investigation by or before any Governmental Authority pending or, to the Company's Knowledge, threatened against, any Acquired Company, to revoke, suspend, or otherwise limit any such material Permit. None of the Acquired Companies has received any written notice from any Governmental Authority since December 31, 2011, regarding any material violation of any such material Permit or any revocation, withdrawal, suspension, cancellation or termination of any such material Permit. Except with respect to provider agreements and as set forth on Schedule 3.4 , the execution and delivery of this Agreement and the consummation of the Contemplated Transactions will not result in any breach or other violation of, or require any consent, waiver, approval, or order issued by, declaration of, or filing with any Governmental Authority with respect to any such material Permit. The Acquired Companies have filed all necessary reports and maintained and retain all necessary records pertaining to all of their respective material Permits. The Company has provided to the Buyer correct and complete copies of each such material Permits, including all amendments and modifications thereto.

3.12.3. Except as set forth on Schedule 3.12.3 , all billing practices (including, without limitation, billing, coding, filing, and claims practices) of the Acquired Companies are, and since December 31, 2011, have been, in material compliance with all applicable Healthcare Laws, and, except as set forth on Schedule 3.12.3 , there is no pending or, to the Company's Knowledge, threatened recoupment, denial of payment, overpayment, or penalty action or proceeding against any Acquired Company under any Government Program or Healthcare Law or any other third party payor program.

3.12.4. Neither any of the Acquired Companies nor, to the Company's Knowledge, any of their directors, officers or managing employees been or is currently suspended, excluded or debarred from contracting with the United States federal or any state government or from participating in any Federal Health Care Program (as defined in 42 USC § 1320a-7b(f)) or is subject to an investigation or proceeding by any Governmental Authority that has resulted in or could result in such suspension, exclusion, or debarment; nor have any of the Acquired Companies or, to the Company's Knowledge, any of their directors, officers or managing employees, received notice of any impending or potential exclusion or listing. None of the Acquired Companies has been subject to sanction pursuant to 15 U.S.C. § 41 et seq. or 42 U.S.C. § 1320a-7a or 1320a-8, or been charged with or convicted of a crime described at 42 U.S.C. § 1320a-7b, and no such sanction or proceeding is pending or, to the Company's Knowledge, threatened.

3.12.5. Neither any of the Acquired Companies nor, to the Company's Knowledge, any of their directors, officers, employees, contractors, or agents, have, directly or indirectly, made or offered to make, or solicited or received, any contribution, gift, bribe, rebate, payoff, influence payment, kickback or inducement to any Person or entered into any financial arrangement, regardless of form, in violation of any applicable Healthcare Law.

3.12.6. None of the Acquired Companies (i) is a party to a Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services, (ii) is, to the Company's Knowledge, the subject of any Governmental Authority investigation conducted by any federal, state or local Governmental Authority except as set forth on Schedule 3.12.6 or (iii) is, to the Company's Knowledge, a defendant or named party in any unsealed *qui tam* /False Claims Act litigation.

3.12.7. Except as set forth on Schedule 3.12.7 , none of the Acquired Companies has had any security or data breaches compromising or otherwise involving Personal Information. Except as set forth on Schedule 3.12.7 , none of the Acquired Companies has received any written claim or notice, alleging or referencing the investigation of any breach or the improper use, disclosure or access to any Personal Information in its possession, custody or control.

3.12.8. Except as set forth on Schedule 3.12.8 , the consummation of the Contemplated Transactions does not constitute, and none of the Acquired Companies has, since December 31, 2011, engaged in any transaction that constitutes, a "change in majority ownership," as that term applies in 42 C.F.R. § 424.550(b) and related Healthcare Laws.

Notwithstanding any other provisions in this Agreement, the representations and warranties included in this Section 3.12 are the only representations and warranties made by the Company with respect to Healthcare Laws.

3.13. Environmental Matters . Except as set forth on Schedule 3.13 , (a) the Acquired Companies are in compliance in all material respects with all applicable Environmental Laws, (b) each of the Acquired Companies, as applicable, has all material Permits required under applicable Environmental Laws and is in compliance in all material respects with the respective requirements of such Permits, and all of such Permits are valid and in full force and effect; (c) there is no material Action pending or, to the Company's Knowledge, threatened, against any of the Acquired Companies in connection with any past or present noncompliance with such Environmental Laws; and (d) there have been no releases, spills, emissions, discharges, leaks, deposits, disposals, dispersals, leachings, or migrations into the environment (including ambient air, surface water, groundwater, and surface or subsurface strata) or any storages, burials, dumpings, transportations, or treatments of any Hazardous Substances by any Acquired Company or, to the Company's Knowledge, any other Person on or from any real property leased or operated by any of the Acquired Companies or, to the Company's Knowledge, on or from any real property formerly leased or operated by any of the Acquired Companies, for which occurrences or activities any Acquired Company reasonably could be expected to have material liability under applicable Environmental Law. Notwithstanding any other provisions in this Agreement, the representations and warranties included in this Section 3.13 are the only representations and warranties made by the Company with respect to environmental matters, including any and all matters with respect to Environmental Laws.

3.14. Material Contracts .

3.14.1. Schedule 3.14.1 sets forth a correct and complete list of all Contracts, including all amendments and modifications thereto, with respect to the Business of the types described below that are in effect on the date hereof (each, a " Material Contract "):

(a) each Contract, including, without limitation, each employment agreement, consulting agreement, indemnification agreement, and severance agreement, between any of the Acquired Companies and any director, officer, employee or individual consultant of any Acquired Company or any representative of the Sellers, in each case, whose annual base compensation in 2013 exceeded $125,000 per year or whose annual base compensation is expected to exceed $125,000 in 2014;

(b) each Contract or binding option to sell or lease (as lessor) any property or asset of an Acquired Company for an amount in excess of $100,000 over any one-year period;

(c) each Contract (other than purchase orders entered into in the ordinary course of business, consistent with past practice) pursuant to which an Acquired Company has agreed to acquire or lease any property or asset for an amount in excess of $200,000 over any one-year period;

(d) each change of control, severance, and employment-related Contract pursuant to which payments by an Acquired Company will be required by reason of consummation of the Contemplated Transactions;

(e) each Contract pursuant to which an Acquired Company has an existing obligation to pay any amounts that may exceed $150,000 in respect of indemnification obligations, purchase price adjustment, or otherwise, in connection with any merger, consolidation or other business combination or any acquisition or disposition of a business or Person or any acquisition of the equity securities, or a material portion of the assets of, a business or Person;

(f) each partnership or joint venture agreement to which an Acquired Company is a party;

(g) each Contract that precludes or restricts an Acquired Company from competing in any line of business or in any geographical area with any Person;

(h) each Contract that imposes any material non-solicitation obligations on any Acquired Company;

(i) each collective bargaining agreement to which an Acquired Company is a party;

(j) each Contract providing for the sale, transfer, or other disposition of any equity securities of any Acquired Company or any material assets of any Acquired Company (other than sales of inventory in the ordinary course of business);

(k) each equity purchase agreement, asset purchase agreement or other Contract imposing ongoing obligations that are material to the Acquired Companies (other than customary obligations in respect of “assumed liabilities” in any acquisitions structured as an acquisition of assets) relating to the acquisition by an Acquired Company of any material business or line of business or Person, whether by merger, consolidation, or other business combination or by the acquisition of the equity securities, or a material portion of the assets, of such business, line of business, or Person;

(l) each mortgage, pledge, security agreement, deed of trust, or other document granting a Lien (other than a Permitted Lien) over any material property of any Acquired Company;

(m) each Contract under which any Acquired Company has incurred Indebtedness or any guarantee of any Indebtedness of any Person other than a Subsidiary of the Company;

(n) each Contract not in the ordinary course of business, in the nature of a settlement or a conciliation agreement arising out of any claim asserted by any Person (including, without limitation, any Governmental Authority) providing for aggregate payments, in the case of any

such agreement entered into with a Person other than a Governmental Authority, in excess of $100,000 that imposes ongoing obligations on any of the Acquired Companies (other than customary releases by an Acquired Company in favor of another Person);

(o) each Contract relating to the purchase, sale, or provision of materials or services that is expected to involve payment or receipt by an Acquired Company of aggregate consideration in excess of $250,000 in any period of twelve months following the date of this Agreement;

(p) each Contract relating to any sole source supplier or vendor to the Business or otherwise providing for the purchase of all of the requirements of the Business for a given product or service from a given third party;

(q) each Contract pursuant to which an Acquired Company (i) is granted or obtains or agrees to obtain any right to use any material Intellectual Property (other than standard form Contracts granting rights to use readily available shrink wrap or click wrap software), (ii) is restricted in its right to use or register any material Intellectual Property, or (iii) permits or agrees to permit any other Person, to use, enforce, or register any material Intellectual Property, including any exclusive license agreements, coexistence agreements, and covenants not to sue; and

(r) any other Contract the loss or termination of which would reasonably be expected to have a Material Adverse Effect.

3.14.2. The Company has made available to the Buyer an accurate and complete copy of each written Material Contract. Except as set forth on Schedule 3.14.2 hereto, as of the date hereof, (a) no Acquired Company is, and, to the Company's Knowledge, no other party is in material default under, or in material breach or violation of, any Material Contract, and (b) to the Company's Knowledge, no event has occurred on or prior to the date hereof that (with or without notice, lapse of time or both) would constitute a material default by an Acquired Company or any other party under any Material Contract. No Acquired Company has received a written notice of material breach or default or any event that with notice or lapse of time, or both, would constitute a material breach or default by either the Company or any of its Subsidiaries of any Material Contract. None of the Material Contracts is the subject of any pending Action or, to the Company's Knowledge, threatened Action.

3.14.3. Each of the Material Contracts constitutes the valid and binding obligation of the Company or a Subsidiary of the Company, as applicable, and, to the Company's Knowledge, each other party thereto, enforceable against the Company or a Subsidiary of the Company, as applicable, and, to the Company's Knowledge, each other party thereto in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' right generally and by general equitable principles.

3.15. Transactions with Affiliates.

3.15.1. Except as set forth on Schedule 3.15, no Affiliate, officer or director (or the equivalent) of any of the Acquired Companies is a party to, or has a material interest in, any material Contract or transaction with any of the Acquired Companies other than with respect to the payment of compensation to officers and directors (or the equivalent) in the ordinary course of business. On or prior to the Closing Date, that certain TCB Professional Services Agreement, dated August 3, 2007, between

Thoma Cressey Bravo, Inc. and the Company will have been terminated in accordance with its terms and will cease to be in effect.

3.15.2. With respect to that certain Client Service and License Agreement dated as of December 1, 2004, by and between Homecare Homebase, L.L.C., and Advanced Homecare Management, Inc., as amended by the First Addendum, dated December 30, 2004, the Amendment effective as of July 1, 2007, the Second Amendment effective as of February 23, 2011, the Third Addendum, dated as of August 15, 2011, the Fourth Addendum, dated as of August 24, 2012, and the fifth Amendment, dated as of December 19, 2013 (collectively, the " IP Agreement "), (i) there have been no amendments, supplements or other modifications to the IP Agreement since the last amendment referenced above and (ii) the terms of the IP Agreement are no less favorable in the aggregate to Advanced Homecare Management, Inc. than those that would have reasonably been expected to have been obtained in an agreement with a person who was not an Affiliate of Advanced Homecare Management, Inc. Solely for purposes of this Section 3.15.2 , "Affiliate" of any specified "person" (any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity) means any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition and this Section 3.15.2 , "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

3.16. Litigation . Except as set forth on Schedule 3.16 , other than Actions (including any series of similar or related Actions) seeking monetary damages of less than $250,000, there is no Action pending or, to the Company's Knowledge, threatened against any Acquired Company. There is no outstanding order, writ, judgment, injunction, decree, determination or award of, or pending or, to the Company's Knowledge, threatened investigation by, any Governmental Authority relating to any of the Acquired Companies, any of their respective properties or assets, or the Contemplated Transactions. There are no Actions commenced by the Company or any of its Subsidiaries pending, or that the Company or any of its Subsidiaries has commenced preparations to initiate, against any other Person. Each Acquired Company is in compliance with every applicable order, including all settlement orders, writs, judgments, injunctions, decrees, determinations or awards, of any Governmental Authority.

3.17. Insurance . Schedule 3.17 sets forth a correct and complete list of all policies or binders of insurance covering the operations of the Acquired Companies as of the date hereof. All such policies are in full force and effect, and all premiums with respect thereto covering all periods up to and including the Closing Date have been paid when due. To the Company's Knowledge, no Acquired Company has received written notice of a material default with respect to its obligations under, or notice of cancellation, reduction in coverage, or nonrenewal of, any of such policies. Neither the execution and delivery of this Agreement nor the consummation of the Contemplated Transactions will result in any termination, cancellation or other material modification of any such policies.

3.18. Labor Matters .

3.18.1. There is no material labor dispute, work slowdown, lockout, stoppage, picketing, or strike pending, or to the Company's Knowledge, threatened between any of the Acquired Companies, on the one hand, and the employees of any Acquired Company, on the other hand, and there has been no such event since December 31, 2011. To the Company's Knowledge, there are no material union organizing activities pending or threatened against any of the Acquired Companies, and there have

been no such activities since December 31, 2011. No employee of any of the Acquired Companies is represented by a labor union and none of the Acquired Companies is a party to, or otherwise subject to, any collective bargaining agreement or other similar labor union contract.

3.18.2. Each of the Acquired Companies is in compliance in all material respects with all applicable Legal Requirements related to the classification of employees as exempt from the overtime pay requirements of, and the obligation to pay such employees overtime wages under, the Fair Labor Standards Act or cognate state Legal Requirements, and no Acquired Company has, since December 31, 2011, incurred any material liability arising from the payment of overtime wages and/or from the misclassification of employees as exempt from such requirements.

3.19. Absence of Certain Payments . None of the Acquired Companies nor, to the Company's Knowledge, any director, officer, agent or employee acting on behalf of any of the Acquired Companies has, in the course of its actions for, or on behalf of, any of them (a) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; (b) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; or (c made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any official or employee of a Governmental Authority.

3.20. Brokers . There are no brokerage commissions, finders' fees or similar compensation payable in connection with the Contemplated Transactions based on any arrangement or agreement made by or on behalf of the Sellers or the Company other than fees (if any) that will (a) be paid as contemplated by Section 2.4.1(d) or (b) otherwise be paid by the Sellers and their respective Affiliates and for which the Buyer and (after the Closing) the Acquired Companies will have no responsibility to pay.

**4. Representations and Warranties of the Sellers.**

Except as provided in the Disclosure Schedules, each Seller, solely as to itself, severally represents and warrants to the Buyer as of the date hereof and as of the Closing Date as follows:

4.1. Organization, Power and Standing . In the case of a Seller that is not an individual, such Seller is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Such Seller has the corporate or other power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the Contemplated Transactions. Such Seller has taken all corporate or other actions or proceedings required to be taken by or on the part of such Seller to authorize and permit the execution and delivery by such Seller of this Agreement and the instruments required to be executed and delivered by it pursuant hereto, and the performance by such Seller of its obligations hereunder and the consummation by such Seller of the Contemplated Transactions, and no other corporate or other action or proceeding on the part of such Seller is necessary for the execution and delivery of this Agreement by such Seller and the consummation of the Contemplated Transactions. In the case of a Seller that is a natural person, such Seller has the capacity to execute and deliver this Agreement, to perform his obligations hereunder, and to consummate the Contemplated Transactions.

4.2. Authorization . This Agreement has been duly executed and delivered by such Seller and, assuming the due authorization, execution and delivery by the other parties hereto, constitutes its legal, valid and binding obligation, enforceable against such Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' right generally and by general equitable principles.

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4.3. Title to Securities. Such Seller is the record and beneficial owner of and has good and valid title to the Securities set forth opposite such Seller's name on Schedule 4.3, free and clear of any Liens, except as are imposed by applicable securities or other laws.

4.4. No Violation or Approval; Consents. Neither the execution and delivery by such Seller of this Agreement nor the consummation by such Seller of the Contemplated Transactions will:

4.4.1. require any material consent, waiver, approval, order or authorization of, or material filing with, any Governmental Authority, other than (a) required filings under the HSR Act and the expiration or termination of any applicable waiting period thereunder and (b) the consents set forth in Schedule 4.4;

4.4.2. result in a material breach, violation or termination of, or acceleration of obligations under, or material default under, or require the consent of any third party under any Contract to which such Seller is party or Governmental Order to which such Seller is subject;

4.4.3. give rise to the imposition of any Lien on the Securities owned by such Seller; or

4.4.4. in the case of a Seller that is not an individual, result in a breach or violation of, or default under, the Organizational Documents of such Seller.

4.5. Litigation. There is no Action pending or, to such Seller's knowledge, threatened against such Seller that in any manner challenges or seeks to prevent, enjoin, alter or materially delay any of the Contemplated Transactions.

4.6. Brokers. There are no brokerage commissions, finders' fees or similar compensation payable in connection with the Contemplated Transactions based on any arrangement or agreement made by or on behalf of such Seller other than fees (if any) that will (a) be paid as contemplated by Section 2.4.1(d) or (b) otherwise be paid by the Sellers and their respective Affiliates and for which the Buyer and (after the Closing) the Acquired Companies will have no responsibility to pay.

## 5. Representations and Warranties of the Buyer and Parent.

Each of the Buyer and Parent represents and warrants to the Sellers and the Company as of the date hereof and as of the Closing Date as follows:

5.1. Organization. Each of the Buyer and Parent is (a) a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and (b) duly qualified or licensed to do business in each jurisdiction where the character of the properties owned, leased or licensed by it or the nature of its business makes such qualification or licensing necessary, except where the failure to be so qualified or licensed has not had, and would not reasonably be expected to materially impair or delay the Buyer's or Parent's ability to consummate the Contemplated Transactions. The Buyer has made available to the Sellers a true, complete and correct copy of each of the Buyer's Organizational Documents, each as in effect on the date hereof.

5.2. Authorization. Each of the Buyer and Parent has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the Contemplated Transactions. Each of the Buyer and Parent has taken all corporate actions or proceedings required to be taken by or on the part of the Buyer or Parent, as applicable, to authorize and permit the execution and delivery by

the Buyer and Parent of this Agreement and the performance by each of the Buyer and Parent of its obligations hereunder and the consummation by the Buyer and Parent of the Contemplated Transactions, and no other corporate action or proceeding on the part of the Buyer or Parent is necessary for the execution and delivery of this Agreement by the Buyer and Parent or for the performance by the Buyer and Parent of their respective obligations under this Agreement and the consummation of the Contemplated Transactions. This Agreement has been duly executed and delivered by each of the Buyer and Parent, and assuming the due authorization, execution and delivery by each of the other parties hereto or thereto, constitutes the legal, valid and binding obligation of the Buyer and Parent, enforceable against the Buyer and Parent in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' right generally and by general equitable principles.

5.3. No Violation or Approval; Consents . 2Neither the execution and delivery by either the Buyer or Parent of this Agreement nor the consummation by the Buyer or Parent of the Contemplated Transactions will:

5.3.1. require the consent, waiver, approval, order or authorization of, or filing with, any Governmental Authority, other than required filings under the HSR Act and the expiration or termination of any applicable waiting period thereunder;

5.3.2. result in a material breach, violation or termination of, or acceleration of obligations under, or material default under, or require the consent of any third party under, any material Contract to which the Buyer or Parent is party or any Governmental Order to which the Buyer or Parent is subject; or

5.3.3. result in a breach or violation of, or default under, the Organizational Documents of the Buyer or Parent.

5.4. Litigation . There is no Action pending or, to the knowledge of the Buyer or Parent, threatened against the Buyer or Parent or any of their respective Affiliates or any of their properties, assets or businesses, that in any manner challenges or seeks to prevent, enjoin, alter or materially delay any of the Contemplated Transactions.

5.5. Available Funds; Solvency . As of the Closing, the Buyer will have immediately available funds in an aggregate amount sufficient (a) to pay in cash all amounts payable pursuant to Section 2 and all fees and expenses of the Buyer incurred in connection with the Contemplated Transactions and (b) based on the accuracy (without regard to any materiality or Material Adverse Effect qualifiers thereto) of all of the representations and warranties of the Company and the Sellers in Articles 3 and 4 , to provide adequate working capital to operate the Acquired Companies immediately following the Closing. Each of the Buyer and Parent acknowledges and agrees that its obligations under this Agreement, including its obligations to consummate the Closing, are not contingent upon its receipt of financing of any kind. The Buyer is and, to the Buyer's knowledge, after giving effect to the Contemplated Transactions and based on the accuracy (without regard to any materiality or Material Adverse Effect qualifiers thereto) of all of the representations and warranties of the Company and the Sellers in Articles 3 and 4 , immediately following the Closing the Company will be, Solvent.

5.6. Brokers . There are no brokerage commissions, finders' fees or similar compensation payable in connection with the Contemplated Transactions based on any arrangement or agreement made by or on behalf of the Buyer, Parent or any of their respective Affiliates other than fees (if any) that will be paid by the

Buyer, Parent any of their respective Affiliates and for which the Sellers and their Affiliates will have no responsibility to pay.

5.7. Investment Intent. The Buyer is acquiring the Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution of any part thereof. The Buyer acknowledges that the Shares and the sale thereof have not been registered under the Legal Requirements of any jurisdiction.

## 6. Conditions Precedent to the Obligations of the Buyer.

The obligation of the Buyer to consummate the Closing is subject to the satisfaction or waiver on or prior to the Closing Date of each of the following conditions:

6.1. Representations and Warranties. (i) The Seller Fundamental Representations shall be true and correct in all material respects at and as of the date of the Closing with the same effect as though made at and as of such time and (ii) the representations and warranties of the Company and the Sellers in this Agreement other than those set forth in clause (i) above shall be true and correct at and as of the date of the Closing with the same effect as though made at and as of such time, except, in the case of this clause (ii), where the failure of all such representations and warranties to be true and correct in the aggregate (without giving effect to any limitation or qualification as to "materiality," including the word "material," or "Material Adverse Effect") has not had and would not reasonably be expected to have a Material Adverse Effect; provided, however, that, with respect to clauses (i) and (ii) above, representations and warranties that are made as of a particular date or period will be true and correct (in the manner set forth in clauses (i) or (ii), as applicable) only as of such date or period.

6.2. Performance of Obligations. The Sellers and the Company will have performed in all material respects all covenants and agreements required by this Agreement to be performed by the Sellers or the Company, respectively, at or prior to the Closing.

6.3. Compliance Certificate. The Company will have delivered to the Buyer a certificate dated as of the Closing Date to the effect that each of the conditions specified above in Sections 6.1, 6.2, and 6.8 has been satisfied.

6.4. Injunctions. No Governmental Authority will have enacted, issued or promulgated any statute, rule, regulation, injunction or other order (whether temporary, preliminary or permanent) that remains in effect and has the effect of prohibiting the consummation of the Closing.

6.5. Governmental Approvals. All necessary (a) filings pursuant to the HSR Act shall have been made and the applicable waiting periods thereunder shall have expired or been terminated and (b) notifications to, consents or approvals of, or filings with, the Governmental Authorities set forth in Schedule 6.5 shall have been obtained or made, as applicable.

6.6. Escrow Agreement. The Buyer will have received a copy of the Escrow Agreement, duly executed by the Company, the Sellers' Representative and the Escrow Agent.

6.7. Indebtedness. The Company will have obtained, and provided to the Buyer copies of, pay-off letters or other similar documentation to the effect that there will be no outstanding amounts payable in respect of the Indebtedness of the Acquired Companies pursuant to the Credit Agreement upon payment at the Closing of the amounts specified in such pay-off letters or similar documentation.

6.8. No Material Adverse Effect . Since the date of this Agreement, there shall not have occurred a Material Adverse Effect.

6.9. Rollover Shares . The Rollover Stock Participants shall have exchanged shares of Class A Common Stock and/or Class B Common Stock, as applicable, which, based upon the Allocation Schedule to be delivered prior to Closing pursuant to Section 2.5.1 of this Agreement, shall represent no less than 15% of the aggregate Purchase Price allocable to such Rollover Stock Participants.

6.10. Employment Agreements . Employment agreements by and among the Company, Buyer, Thoma Cressey Fund VIII, L.P., and, respectively, the individuals listed on Schedule 6.12 entered into on the date hereof shall be in full force and effect.

6.11. Resignations . The Buyer shall have received written resignations of the directors of the Company and such other directors and officers of any of the Acquired Companies as the Buyer shall request in writing at least ten (10) Business Days prior to the Closing Date.

**7. Conditions Precedent to Obligations of the Sellers.**

The obligation of the Sellers to consummate the Closing is subject to the satisfaction or waiver on or prior to the Closing Date of each of the following conditions:

7.1. Representations and Warranties . (i) The Buyer Fundamental Representations shall be true and correct in all material respects at and as of the Closing with the same effect as though made at and as of such time and (ii) the representations and warranties of the Buyer in this Agreement other than those set forth in clause (i) above shall be true and correct at and as of the Closing with the same effect as though made at and as of such time, except, in the case of this clause (ii), where the failure of such representations and warranties to be true and correct in the aggregate would not reasonably be expected to have a material adverse effect on the Buyer's ability to consummate the Contemplated Transactions; provided , however , that, with respect to clauses (i) and (ii) above, representations and warranties that are made as of a particular date or period will be true and correct (in the manner set forth in clauses (i) or (ii), as applicable) only as of such date or period.

7.2. Performance of Obligations . The Buyer will have performed in all material respects all covenants and agreements required by this Agreement to be performed by the Buyer at or prior to the Closing.

7.3. Issuance of Rollover Shares . In respect of each Rollover Stock Participant's Rollover Shares, HHHH shall have issued to each Rollover Stock Participant the number of HHHH Shares set forth in their respective Rollover Stock Agreements.

7.4. Compliance Certificate . The Buyer will have delivered to the Sellers' Representative (on behalf of the Sellers) a certificate of the Buyer dated as of the Closing Date to the effect that each of the conditions specified above in Sections 7.1 and 7.2 has been satisfied.

7.5. Injunctions . No Governmental Authority will have enacted, issued or promulgated any statute, rule, regulation, injunction or other order (whether temporary, preliminary or permanent) that remains in effect and has the effect of prohibiting the consummation of the Closing.

7.6. Governmental Approvals . All necessary (a) filings pursuant to the HSR Act shall have been made and the applicable waiting periods thereunder shall have expired or been terminated and (b) notifications

to, consents or approvals of, or filings with, the Governmental Authorities set forth in Schedule 6.5 shall have been obtained or made, as applicable.

7.7. Escrow Agreement . The Sellers' Representative will have received a copy of the Escrow Agreement, duly executed by the Buyer and the Escrow Agent.

**8. Covenants of the Parties.**

8.1. Access to Premises and Information . From the date hereof until the Closing Date, upon reasonable notice from time to time, the Company shall, and shall cause its Subsidiaries to, provide the Buyer and its Representatives reasonable access during normal business hours and under the supervision of Company personnel to the records and books of account of the Acquired Companies (the " Records ") in possession of the Acquired Companies, to the premises of the Acquired Companies, and to the officers and directors of the Acquired Companies as such Person may reasonably request; provided , however , that such access to such information and furnishing of such information will be conducted solely at the Buyer's expense and the Buyer and its Representatives shall not unreasonably disrupt the personnel and operations of the Acquired Companies. Notwithstanding anything to the contrary contained in this Section 8.1 , the Acquired Companies may withhold any document (or portions thereof) or information (a) that is subject to the terms of a non-disclosure agreement or undertaking with a third party, (b) that constitutes privileged attorney-client communications or attorney work product, or (c) if the provision of access to such document (or portion thereof) or information, as determined by the Acquired Companies in good faith, could reasonably be expected to conflict with applicable Legal Requirements. All information exchanged pursuant to this Section 8.1 shall be subject to that certain confidentiality agreement between the Buyer and the Company, dated August 21, 2014 (as amended, the " Confidentiality Agreement "), and Buyer acknowledges and agrees that it will abide by the terms of such Confidentiality Agreement.

8.2. Conduct of Business Prior to Closing . From the date hereof until the Closing, except as set forth on Schedule 8.2 , the Acquired Companies shall use commercially reasonable efforts to (a) conduct the Business in the ordinary course of business, consistent with past practice, (b) preserve the present business operations, organization, and goodwill of the Business, maintain relationships with customers, suppliers, employees, and Governmental Authorities, (c) maintain the books, accounts and records of the Business in the ordinary course of business, and (d) maintain the material assets of the Business in their current condition, ordinary wear and tear excepted, in the ordinary course of business. Without limiting the generality of the foregoing and except as set forth on Schedule 8.2 , without the prior written consent of the Buyer (not to be unreasonably withheld, conditioned or delayed), none of the Acquired Companies will:

8.2.1. increase the compensation (including bonuses) payable on or after the date hereof to any director or executive officer of an Acquired Company, except for increases (i) in the ordinary course of business, consistent with past practice, (ii) provided for in any Contracts or Company Plans in effect on the date hereof, (iii) as required by applicable Legal Requirements or (iv) the award of Transaction Bonus Payments in an aggregate amount less than or equal to $15,000,000;

8.2.2. enter into any material new, or amend in any material respect any existing, severance or change in control plan or provision or enter into any contract of employment involving annual base compensation in excess of $125,000, in each case other than the award of Transaction Bonus Payments in an aggregate amount less than or equal to $15,000,000; or enter into any indemnification agreement with any stockholder, director, officer, employee, individual consultant, or representative;

8.2.3. issue, sell or otherwise dispose of any equity interests or grant any options or other rights to purchase or obtain (including upon conversion, exchange or exercise) any of its equity interests, except for repurchases made in connection with the termination of the employment of employees of the Acquired Companies;

8.2.4. incur, assume or guarantee any Indebtedness, other than under credit facilities or notes in existence on the date hereof;

8.2.5. make any material change in its methods, principles, or policies of accounting or accounting practices (including with respect to reserves);

8.2.6. subject to Section 8.11 , amend its Organizational Documents;

8.2.7. incur any capital expenditure or commitment for capital expenditures in excess of $500,000, except (a) as would not exceed the aggregate amount of capital expenditures that the Company has budgeted for the applicable fiscal year or (b) as occurs in the ordinary course of business;

8.2.8. acquire or dispose of any business or material investment or any material assets, except for (i) sales or dispositions of assets in the ordinary course of business, consistent with past practice or (ii) pursuant to existing Contracts or commitments;

8.2.9. declare, issue, make or pay any dividend or other distribution of assets to the Shareholders, other than in cash;

8.2.10. commences, settle or affirmatively waive any claim or right with a value in excess of $250,000 on an individual basis;

8.2.11. adopt, amend or terminate any Company Plan, except as required by applicable Legal Requirements or the terms thereof or for the award of Transaction Bonus Payments in an aggregate amount less than or equal to $15,000,000;

8.2.12. (a) change or revoke any material Tax election, (b) file any material Tax Returns of or relating to the Acquired Companies that have been prepared in a manner that is inconsistent with the past practices of the Acquired Companies, (c) file any material amended Tax Return, (d) settle or compromise any claim, investigation, audit, liability or controversy for or relating to Taxes, (e) agree to an extension or waiver of the statute of limitations with respect to the assessment or determination of Taxes (for the avoidance of doubt, an ordinary course extension to file a Tax Return shall not be considered an extension or waiver for purposes of this provision), (f) enter into any closing agreement with respect to any material Tax or (g) surrender any right to claim a material Tax refund;

8.2.13. enter into, materially amend or terminate any Material Contract or any Lease, or waive, release or assign any material rights or claims thereunder, except in the ordinary course of business;

8.2.14. except as otherwise expressly permitted by this Section 8.2 (including Section 8.2.2 and 8.2.11 ), enter into any Contract or transaction with any of its officers, directors, or stockholders, or any of their respective Affiliates not fully-paid prior to or in connection with the Closing;

8.2.15. sell, assign, transfer or grant to any Person any rights with respect to any Intellectual Property owned by the Acquired Companies, other than in the ordinary course of business;

8.2.16. make any material change in the working capital practices from those in effect on the date of the Interim Financial Statements;

8.2.17. except as expressly permitted by Section 8.2.3 , merge, combine or consolidate with any Person or acquire any third party or its business, or invest in or make a capital contribution to or otherwise acquire the securities of another Person; or

8.2.18. agree or commit to do any of the things referred to elsewhere in this Section 8.2 .
Other than the right to consent or withhold consent with respect to the foregoing matters (which consent will not be unreasonably withheld, conditioned or delayed), nothing contained in this Agreement will give to Buyer, directly or indirectly, any right to control or direct the operation of the Acquired Companies prior to the Closing.

8.3. Confidentiality .

8.3.1. Confidentiality .

(a) The Confidentiality Agreement shall remain in effect until the Closing, at which point it shall terminate. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement will continue in full force and effect in accordance with its terms.

(b) Notwithstanding the termination of the Confidentiality Agreement at the Closing, for a period of five (5) years following the Closing Date, the Buyer shall, and shall cause its Affiliates and its and their respective Representatives to, keep confidential and not use or disclose documents and information concerning the Sellers or their respective Affiliates (other than the Acquired Companies) furnished to the Buyer or its Affiliates or its or their respective Representatives in connection with the Contemplated Transactions.

8.3.2. Announcements . Any public announcements, reports, statements or press releases by any party hereto or any of its Affiliates regarding the Contemplated Transactions must be approved in advance (as to form, content, timing and manner of distribution) by each of the Buyer and the Sellers' Representative; provided , however , that any party may make a filing to the extent required by applicable securities or other laws, provided further , however , that the party required to make such filing shall provide a copy to the other party, and afford such other party reasonable opportunity in advance of such filing to review and comment upon the form and substance of such filing.

8.4. Preparation for Closing . Subject to the terms and conditions hereof, each of the Company and the Buyer agrees to use their respective reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable Legal Requirements to consummate the Contemplated Transactions as promptly as practicable, including preparing and filing as promptly as practicable with the applicable Governmental Authorities all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents necessary to consummate the Contemplated Transactions. In furtherance (and not in limitation) of the foregoing:

8.4.1. Antitrust Matters . Each of the Company and the Buyer agrees to file all appropriate notifications and filings pursuant to the HSR Act or any other applicable antitrust or competition laws

with respect to the Contemplated Transactions in the most expeditious manner practicable, but in any event within three (3) Business Days after the date hereof and to supply promptly any additional information and documentary material that may be requested of such party by the relevant Governmental Authorities in connection with the HSR Act or any other applicable antitrust or competition laws. Each of the Company and the Buyer agrees to use reasonable best efforts to obtain early termination of the waiting period under the HSR Act and any other applicable antitrust or competition law, as applicable. Each of the Company and the Buyer agrees to use reasonable best efforts to avoid or eliminate as soon as possible each and every impediment under the HSR Act and any other applicable antitrust or competition laws that may be asserted by any United States or other governmental antitrust authority so as to enable the parties to expeditiously consummate the Contemplated Transactions, including committing to and/or effecting, by consent decree, hold separate order or otherwise, the sale or disposition of such assets, securities, facilities or other properties as are required to be divested in order to facilitate the expiration or termination of the HSR Act waiting period or otherwise obtain all applicable merger control clearances under the HSR Act or any other applicable antitrust or competition laws; provided , however , that, notwithstanding the foregoing, the Buyer shall not be required to, and the Sellers shall not be permitted to, take any such action which would materially and adversely affect the assets, revenues or financial condition of the combined home healthcare business of the Acquired Companies and the Buyer, taken as a whole. The Buyer shall pay the filing fees associated with the HSR filings and any other applicable antitrust or competition laws. Each of the Company and the Buyer agrees not to participate in any substantive meeting or discussion, either in person or by telephone, with any United States or other governmental antitrust authority in connection with the Contemplated Transactions unless it (i) consults with the other party in advance, if at all possible, and (ii) to the extent not prohibited by such governmental antitrust authority, gives the other party the opportunity to attend and participate. The Company and the Buyer will supply each other with copies of all correspondence, filings or communications with governmental antitrust authorities, with respect to the Contemplated Transactions; provided , however , that to the extent any of the documents or information are commercially or competitively sensitive, the Company or the Buyer, as the case may be, may satisfy its obligations by providing such documents or information to the other party's outside antitrust counsel, with the understanding that such antitrust counsel shall not share such documents and information with its client.

8.4.2. Buyer Transactions . Prior to the Closing or the earlier termination of this Agreement, Buyer will not enter into any transaction, or any contractual arrangement or other agreement, whether oral or written, to effect any transaction (including any merger or acquisition) that would reasonably be expected to prevent or materially delay: (a) obtaining the expiration or termination of the waiting period under the HSR Act, (b) avoiding the entry of, the commencement of litigation seeking the entry of, or effecting the dissolution of, any injunction, temporary restraining order or other order that would materially delay or prevent the consummation of the Contemplated Transactions or (c) obtaining all authorizations, consents, orders and approvals of Governmental Authorities necessary for the consummation of the Contemplated Transactions.

8.4.3. Third Party Consents . Each of the Buyer and the Company shall reasonably cooperate with one another (a) in determining whether any actions, consents, approvals or waivers are required to be obtained from third parties to any Leases or Material Contracts, in connection with the consummation of the Contemplated Transactions and (b) in taking such actions, furnishing information required in connection therewith and seeking to obtain in a timely manner any such actions, consents, approvals or waivers; provided , that nothing in this Agreement shall obligate or be construed to obligate the Sellers or the Acquired Companies to make or cause to be made any material payment or material

concession to any third party in order to obtain any such action, consent, approval or waiver under any Lease or Material Contract.

8.5. Business Records. The Buyer acknowledges that the Sellers and/or the Sellers' Representative (on behalf of one or more Sellers) may from time to time from and after the Closing require access to the Records, and agrees that upon reasonable prior notice, it will, and will ensure that the Acquired Companies will, during normal business hours, provide the Sellers, the Sellers' Representative and their respective Representatives with either access to or copies of the Records. If the Company shall desire to dispose of any such Records prior to the seventh (7th) anniversary of the Closing Date, the Company shall, prior to any such disposition, notify the Sellers' Representative and provide to the Sellers' Representative (or, if applicable, its designee) and its Representatives a reasonable opportunity, at the Sellers' Representative's expense, to make copies of or remove such Records.

8.6. Directors and Officers Indemnification and Insurance.

8.6.1. The Buyer and the Acquired Companies agree that all rights to indemnification, advancement of expenses and exculpation from liability for or in connection with acts or omissions occurring at any time prior to or on the Closing Date, that now exist in favor of any Person who prior to or on the Closing Date is or was a current or former director, officer or employee of an Acquired Company, or who at the request of an Acquired Company served prior to or on the Closing Date as a director, officer, member, manager, employee, trustee or fiduciary of any other entity of any type (each a " D&O Indemnified Person ") provided in the Organizational Documents of an Acquired Company, or in any agreement between a D&O Indemnified Person and an Acquired Company set forth on Schedule 8.6.1 (an " Indemnity Agreement ") will survive the Closing and will continue in full force and effect for the six (6) year period following the Closing Date. In furtherance (and not in limitation of) the foregoing, for the six (6) year period following the Closing Date, the Buyer will cause the Acquired Companies to, and the Acquired Companies will (i) not amend, repeal or otherwise modify in any manner that would adversely affect the rights thereunder of any D&O Indemnified Person the provisions with respect to indemnification, advancement of expenses and exculpation from liability in the Organizational Documents of each of the Acquired Companies and (ii) continue in existence each Indemnity Agreement without termination, revocation, amendment or other modification that would adversely affect the rights thereunder of any D&O Indemnified Person.

8.6.2. On or before the Closing Date, the Buyer will obtain for the Acquired Companies, and, for a six (6) year period following the Closing Date, the Buyer will cause the Acquired Companies to maintain in effect, with no lapse in coverage, one or more "tail" or "runoff" directors' and officers' liability and employment practices liability insurance policies covering actual or claimed acts or omissions of any D&O Indemnified Person occurring on or before the Closing Date, in each case on terms with respect to coverage, retentions, amounts and other material terms at least as favorable to such D&O Indemnified Persons as those of such policies in effect as of the date hereof.

8.6.3. If any Acquired Company (or any of its successors or assigns) (a) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger, or (b) transfers all or substantially all of its properties and assets to any other Person (including by dissolution, liquidation, assignment for the benefit of creditors or similar action), then, and in each such case, the Buyer will use its commercially reasonable efforts to cause proper provision to be made so that such other Person fully assumes the obligations set forth in this Section 8.6.

8.6.4. In any Action involving a D&O Indemnified Person and one or more other D&O Indemnified Persons, a D&O Indemnified Person shall have the right and obligation to control such D&O Indemnified Person's defense of the Proceeding, or at the sole election of the D&O Indemnified Person, to tender control of the defense to the Buyer; provided , however , that if all D&O Indemnified Persons do not tender control of the defense to the Buyer, such D&O Indemnified Persons shall reasonably cooperate with each other to retain a single law firm (and, if reasonable under the circumstances, one local law firm) to represent such D&O Indemnified Persons; provided , further , that, if the D&O Indemnified Persons are unable to agree on a single law firm within thirty (30) days of the filing of such Action, the Buyer (or its designee) shall have the right to select counsel reasonably acceptable to the D&O Indemnified Persons (which acceptance shall not be unreasonably withheld, conditioned, or delayed) for the defense of such Action; provided , however , that a D&O Indemnified Person shall be entitled to retain separate counsel (but not more than one law firm plus, if applicable, local counsel) at the Buyer's expense if (i) a D&O Indemnified Person or such law firm reasonably concludes the use of such law firm to represent such D&O Indemnified Person and any other D&O Indemnified Persons would present such counsel with an actual or potential conflict of interest or other significant divergence of interest, (ii) a D&O Indemnified Person or such law firm reasonably concludes that there may be one or more legal defenses available to such D&O Indemnified Person that are different from or in addition to those available to the other D&O Indemnified Persons, or (iii) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, it being understood and agreed by the parties that the fewest number of counsels necessary to avoid such conflicts of interest shall be used. In the event that defense of a matter is tendered to the Buyer, all D&O Indemnified Persons tendering such matter will cooperate in the defense of any such matter, and the Buyer shall not, without the prior written consent of such D&O Indemnified Persons, settle any Action in any manner that would: (A) impose any fine or other obligation on such D&O Indemnified Persons, including an admission of culpability on behalf of such D&O Indemnified Persons; or (B) not include a full release of such D&O Indemnified Persons from all liability in respect of such action, suit or proceeding, which release shall be in form and substance reasonably satisfactory to the D&O Indemnified Persons. In the event that any D&O Indemnified Person controls his or her own defense, the Buyer and the applicable Acquired Company shall not be liable for any settlement effected without such D&O Indemnified Person's prior written consent, which consent shall not be unreasonably withheld, conditioned, or delayed; and provided , further , that the Buyer and the Acquired Companies shall not have any obligation hereunder to such D&O Indemnified Person to the extent that a court of competent jurisdiction shall ultimately determine, and such determination shall have become final, that the indemnification of such D&O Indemnified Person in the manner contemplated hereby and pursuant to Section 8.6.1 hereof is prohibited by applicable Legal Requirements.

8.6.5. The provisions of this Section 8.6 shall survive the Closing. This Section 8.6 shall be for the irrevocable benefit of, and shall be enforceable by, each D&O Indemnified Person and his or her respective heirs, executors, administrators, estates, successors and assigns, and each such Person shall be an express intended third party beneficiary of this Agreement for such purposes. Buyer shall pay, or shall cause the Acquired Companies to pay, as and when incurred by any Person referred to in the immediately preceding sentence, all fees, costs, charges and expenses incurred by such Person in enforcing such Person's rights under this Section 8.6 . Notwithstanding anything in this Agreement to the contrary, the obligations under this Section 8.6 shall not be terminated, revoked, modified or amended in any way so as to adversely affect any Person referred to in the second sentence of this Section 8.6.5 without the written consent of such Person. With respect to any right to indemnification or advancement for actual or claimed acts or omissions occurring prior to or on the Closing Date, each Acquired Company, as applicable, shall be the indemnitor of first resort, responsible for all such

indemnification and advancement that any D&O Indemnified Person may otherwise have rights to from any direct or indirect shareholder or equity holder of any of the Acquired Companies (or any Affiliate of such shareholder or equity holder) and without right to seek subrogation, indemnity or contribution. Each of the Acquired Companies and the Buyer further agrees that no advance or prepayment by any party other than the Acquired Companies as the primary indemnitor on behalf of any D&O Indemnified Person with respect to any claim for which such D&O Indemnified Person has sought indemnification from any of the Acquired Companies shall affect the foregoing and that any such secondary indemnitor shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all the rights of recovery of the D&O Indemnified Person against the Acquired Companies and the Acquired Companies hereby irrevocably release any such secondary indemnitor from, and irrevocably waive and relinquish any right to assert against any such secondary indemnitor, any and all claims for contribution, subrogation or any other recovery of any kind in respect thereof. Each of the Acquired Companies, the Buyer and the D&O Indemnified Persons agree that the secondary indemnitors are express third party beneficiaries of this Section 8.6.5 .

8.7. Tax Matters .

8.7.1. Transfer Taxes . The Buyer and the Company shall bear equally all Transfer Taxes. Each of the parties hereto shall prepare and file, and shall fully cooperate with each other with respect to the preparation and filing of any Tax Returns or other filings relating to Transfer Taxes as may be required.

8.7.2. Pre-Closing Tax Period Taxes and Tax Returns .

(a) Subject to Section 8.7.1 , the Sellers' Representative shall prepare, or cause to be prepared, in a manner consistent with past practice unless otherwise required by applicable Legal Requirements, all Tax Returns for the Acquired Companies that relate to (or include) any Pre-Closing Tax Period and that are due after the Closing Date. The Sellers' Representative shall provide the Buyer with a copy of any such Tax Return (together with supporting workpapers) for the Buyer's review no later than, in the case of Income Tax Returns, 150 days following the Closing Date and, in the case of other Tax Returns, as soon as is commercially practicable, accompanied by a statement calculating in reasonable detail the Sellers' Representative's payment obligation, if any, pursuant to Section 8.7.2(b) . If for any reason the Buyer does not agree with any position taken on any such Tax Return, the Buyer shall notify the Sellers' Representative of its disagreement within thirty (30) Business Days of (in the case of Income Tax Returns), and in the case of other Tax Returns promptly, receiving a copy of the Tax Return (together with supporting workpapers), and the disputed item shall be resolved in a manner mutually agreeable to the parties. In the case of Income Tax Returns, if not so resolved, then by an internationally recognized accounting firm of comparable stature reasonably acceptable to both the Buyer and the Sellers' Representative that is independent of the Buyer and the Sellers' Representative (the " Accounting Firm ") within a reasonable time, taking into account the deadline for filing such Tax Return. Upon resolution of all such items, the relevant Tax Return shall be adjusted to reflect such resolution and shall be binding upon the parties without further adjustment. The costs, fees and expenses of the Accounting Firm shall be borne by the parties in a manner similar to that provided in Section 2.5.4 . In the event that a resolution cannot be reached prior to the last date for timely filing a Tax Return (giving effect to any valid extensions), the Buyer shall file such Tax Return as prepared by the Sellers'

Representative prior to such resolution, provided, however, that the Buyer shall be required to amend such Tax Return to reflect the position of the Accounting Firm, if different. The Buyer or the applicable Acquired Company shall file, or cause to be filed, all such Tax Returns.

(b) Subject to Section 8.7.1, the Sellers' Representative shall pay or cause to be paid (in each case, solely from the Escrow Funds) the Taxes shown as due on any Tax Return described in Section 8.7.2(a) to the extent such Taxes relate to (or include) any Pre-Closing Tax Period (determined in accordance with Section 8.7.4). Notwithstanding anything to the contrary in this Agreement (including this Section 8.7.2 or Section 9), the Sellers and the Sellers' Representative shall have no liability under this Agreement (including via the Escrow Agreement) with respect to (and Buyer shall pay or cause to be paid) (x) any Taxes that were taken into account in the calculation of the Final Working Capital Amount or any other adjustment to the Purchase Price, (y) Taxes incurred by an Acquired Company, a Seller or any of their respective Affiliates as a result of actions outside the ordinary course taken after the Closing (including the incurrence of Indebtedness by an Acquired Company or Buyer or its Affiliates in connection with the Contemplated Transactions) or (z) Taxes for a Post-Closing Tax Period.

(c) The parties agree that all losses, deductions, credits and any other Tax benefits available on account of the payment or incurrence of the Transaction Expenses, the Transaction Bonus Payments, the payment of the Company Indebtedness, and the other transactions or payments contemplated by this Agreement shall be reported in Pre-Closing Tax Periods (and otherwise treated as attributable to Pre-Closing Tax Periods) to the extent permitted by applicable Legal Requirements. Success-based fees shall be reported in accordance with Rev. Proc. 2011-29.

8.7.3. Amended Returns; Tax Elections. The Buyer shall not, and shall cause the Acquired Companies not to, (a) make any amendment of any Tax Returns of the Acquired Companies to the extent such Tax Return relates to any Pre-Closing Tax Period or to the extent such amendment would otherwise adversely affect the Sellers without the Sellers' Representative's prior written consent (which consent shall not be unreasonably withheld, condition, or delayed) or (b) make any election that has retroactive effect to any Pre-Closing Tax Period or that would otherwise adversely affect any Seller without such Seller's prior written consent (which consent shall not be unreasonably withheld, condition, or delayed).

8.7.4. Straddle Periods. In the case of any Straddle Period, the amount of any Taxes of the Acquired Companies not based upon or measured by income, activities, events, the level of any item, gain, receipts, proceeds, profits or similar items for the Pre-Closing Tax Period will be deemed to be the amount of such Taxes for the entire Tax period multiplied by a fraction, the numerator of which is the number of days in the Tax period ending on the Closing Date and the denominator of which is the number of days in such Straddle Period. The amount of any other Taxes for a Straddle Period that relate to the Pre-Closing Tax Period will be determined based on an interim closing of the books as of the close of business on the Closing Date (and for such purpose the taxable period of any partnership will be deemed to end as of the close of business on the Closing Date); provided, however, that any item determined on an annual or periodic basis (such as deductions for depreciation or real estate Taxes) shall be apportioned on a daily basis.

8.7.5. Tax Proceedings . Subject to Section 8.7.6 , in the event of any audit, assessment, examination, claim or other controversy or proceeding relating to Taxes or Tax Returns of any Acquired Company (a " Tax Proceeding ") with respect to any Pre-Closing Tax Period, the Buyer shall inform the Sellers' Representative of such Tax Proceeding as soon as possible but in any event within ten (10) Business Days after the receipt by the Buyer of notice thereof. The Buyer and the Sellers' Representative shall jointly control such Tax Proceedings, each at their own expense, and the parties shall not settle or otherwise resolve such Tax Proceeding without the consent of the other party (which consent shall not be unreasonably withheld, conditioned or delayed); provided that the Buyer shall control a Tax Proceeding if and for so long as each of the following conditions is satisfied: (i) the Escrow Termination Date has passed; (ii) the Buyer is not seeking indemnification for any Tax claim that has survived the Escrow Termination Date; and (iii) the Buyer has paid all amounts due under Section 8.7.7 of this Agreement.

8.7.6. Refunds and Credits . Any refunds (including, for the avoidance of doubt, overpayments of estimated Taxes) of or credits against Taxes (including any interest paid or credited with respect thereto) of, or with respect to, any Acquired Company that are attributable or allocable to any Pre-Closing Tax Period will be for the benefit of the Sellers, except to the extent any such refunds or credits are included as assets reflected in the Final Working Capital Amount or are attributable to a carry-back of net operating losses or other Tax attributes from a Post-Closing Tax Period. The Sellers' Representative shall prepare, or cause to be prepared, all such claims for refunds or credits (a " Refund Claim ") and, in preparing each such Refund Claim, shall carry back, to the maximum extent permitted under applicable Tax law, all Transaction Tax Deductions to the Pre-Closing Tax Periods of the Acquired Companies. The Sellers' Representative shall provide the Buyer with a copy of all such Refund Claims (together with supporting workpapers) for the Buyer's review no later than 180 days following the Closing Date. The Refund Claims will reflect the Buyer's reasonable comments. The Buyer will pay the amount of any such refunds (whether received as a refund or as a credit against or an offset of Taxes otherwise payable), net of all Taxes, or out-of-pocket costs, related to the receipt thereof, as directed by the Sellers' Representative within ten (10) days of receipt, and the Company will pay through applicable payroll processes to the Optionholders (in each case based on the allocable portion set forth in the Allocation Schedule); provided that any employer-paid withholding Tax required to be paid in connection with such payments to Optionholders shall be deducted from the amount payable. The Buyer will, if the Sellers' Representative so requests, cause the relevant entity to file each Refund Claim prepared by the Sellers' Representative.

8.7.7. Transaction Tax Benefits . Without duplication, as directed by the Sellers' Representative, the Buyer will promptly forward to the Sellers' Representative for distribution to the Sellers, and the Company will pay through applicable payroll processes to the Optionholders (in each case based on the allocable portion set forth on the Allocation Schedule), the amount of any Transaction Tax Benefit actually realized by the Buyer or any of its Affiliates (including the Acquired Companies); provided that any employer-paid withholding Tax required to be paid in connection with such payments to Optionholders shall be deducted from the amount payable. Notwithstanding anything to the contrary in this Section 8.7.7 , but subject to Section 9.4 , the Buyer may retain any Transaction Tax Benefit received after the Escrow Termination Date to the extent of any Loss related to a claim for unpaid Taxes of the Acquired Companies for any Pre-Closing Tax Period that would be indemnified under Section 9.2.1(a) without regard to the limitations on recovery in Section 9.2 . For purposes of determining the year in which a Transaction Tax Benefit is actually realized by the Buyer, the parties shall treat all other losses, deductions, and credits of the Buyer for the applicable Post-Closing Tax Period as having been used prior to any Transaction Tax Deductions.

8.7.8. No Code Section 338 Election. The Buyer shall not make, or permit to be made, any election under Section 338 of the Code or any similar provision of state, local, or non-U.S. Tax law with respect to the Contemplated Transactions.

8.7.9. Cooperation and Tax Record Retention. The Buyer and the Sellers' Representative shall cooperate fully as and to the extent reasonably requested by either party in connection with the preparation, execution and filing of Tax Returns and in connection with any Tax Proceeding. Such cooperation shall include access to records and information that are reasonably relevant to any such Tax Return or Tax Proceeding, making employees and outside consultants available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Buyer and the Sellers' Representative each agree, upon request, to use commercially reasonable efforts to obtain any certificate or other document from any Governmental Authority or any other person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including with respect to the transactions contemplated by this Agreement). Each party shall fully cooperate with the other in connection with the preparation of any Tax Returns pursuant to this Section 8.7, in connection with any claim for a refund or credit (or Tax Proceeding) governed by Section 8.7.6, and in connection with any Tax Proceeding jointly controlled pursuant to Section 8.7.5. Notwithstanding anything else contained in this Agreement to the contrary, the Buyer shall retain all books and records with respect to Tax matters pertinent to the Acquired Companies relating to any Pre-Closing Tax Period until the expiration of the statute of limitations (taking into account any extensions thereof) applicable to such taxable periods, and to abide by all record retention agreements entered into with any Taxing Authority.

8.7.10. FIRPTA. The Sellers' Representative shall deliver to the Buyer an affidavit, in form and substance required under Section 1445(b)(3) of the Code with respect to the Company. If the Buyer does not receive such certification on or prior to the Closing Date, the Buyer shall be permitted to withhold from the Purchase Price any required withholding Tax under Section 1445 of the Code.

8.7.11. FATCA. In the event that any Seller is a not a United States person within the meaning of Section 7701(a)(30) of the Code, the Sellers' Representative shall deliver to the Buyer a properly executed Internal Revenue Service Form W- 8BEN, W-8BEN-E, or other applicable successor form, establishing such Seller's exemption from withholding under Section 1471-1474 of the Code, Treasury Regulations promulgated thereunder, and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

8.8. Notification. From the date hereof until the Closing Date, the Acquired Companies or the Sellers may disclose to the Buyer in writing (in the form of updated Disclosure Schedules) (the " Schedules Notice ") any development, fact or circumstance arising after the date hereof, and of which, prior to such date, none of the Acquired Companies and none of the Sellers had any knowledge, causing a breach of any of the representations and warranties contained in Sections 3 or 4 hereof. Such Schedules Notice shall amend and supplement the appropriate Disclosure Schedules delivered on the date hereof and attached hereto; provided that, if the absence of such disclosures would otherwise have resulted in the failure of the representations and warranties of the Sellers and the Company to be true and correct in all material respects as of the Closing Date (provided, that with respect to representations and warranties that are made as of a particular date, the absence of such disclosures would have resulted in the failure of such representations and warranties to be true and correct in all material respects only as of such date), then the Buyer will have the right to terminate this Agreement by providing written notice of such termination to the Company within ten (10) Business Days of Buyer's receipt of such Schedules Notice, and notwithstanding anything to the contrary in this Agreement, such termination will be the Buyer's sole and exclusive remedy relating to any matters properly set forth in such Schedules Notice. If the Buyer fails to provide written notice of such termination to the Company within

ten (10) Business Days of its receipt of such Schedules Notice, then the Schedules Notice will be deemed to have amended the Disclosure Schedules, as applicable, to add such additional information, to have qualified the representations and warranties in Section 3 and Section 4 , as applicable, and to have cured any misrepresentation or breach of any representation or warranty that might otherwise have existed hereunder by reason of the occurrence, or failure to occur, of the matter or matters set forth in the Schedules Notice.

8.9. Further Assurances .

8.9.1. Each of the Company, the Sellers' Representative, on behalf of the Sellers, and the Buyer, upon the request of any of the others from time to time after the Closing, and at the expense of the requesting party but without further consideration, shall sign such documents and take such actions as may be necessary or otherwise reasonably requested to effect, or make more fully effective, the consummation of the Contemplated Transactions.

8.9.2. Prior to the Closing, the Sellers and the Company shall, and shall cause the Subsidiaries of the Company to, use commercially reasonable efforts to provide such cooperation as may be reasonably requested by the Buyer in connection with the arrangement of its financing of the Contemplated Transactions pursuant to the Buyer's existing credit facility, including: (i) upon reasonable prior notice, making senior management of the Company available to (1) participate in, and reasonably assist the Buyer in the Buyer's preparation of materials for, and meetings with the administrative agent of the Buyer's existing credit facility and any of the Buyer's other financing sources at reasonable times in a reasonable number of meetings and (2) reasonably assist the Buyer in the Buyer's preparation of materials for meetings with rating agencies; (ii) requesting that the independent accountant of the Company be available to such financing sources to answer questions; (iii) providing the Buyer with such information as such financing sources may reasonably request of the Buyer; (iv) providing customary assistance to the Buyer in the Buyer's preparation or filing of any security or collateral documents necessary in connection with the Buyer's financing of the Contemplated Transactions; and (v) requesting releases of Liens and pay-off letters in accordance with the terms hereof; provided , however , that with respect to clauses (i) through (v) above, (A) prior to the Closing, the Sellers, the Company and its Subsidiaries will not be required to authorize or execute or become bound by any agreement that is effective earlier than the Closing Date, (B) nothing in this Section 8.9.2 shall require cooperation to the extent that it would (x) cause any condition to Closing set forth in Section 6 to not be satisfied or otherwise cause any breach of this Agreement, (y) reasonably be expected to conflict with or violate the any of Company's or its Subsidiaries' Organizational Documents or any Legal Requirement, or result in the material contravention of, or result in a material violation or breach of, or default under, any material contract, or result in loss of attorney-client privilege or attorney work product protection, (C) the Buyer shall indemnify, defend and hold harmless the Company and its Subsidiaries, and their respective pre-Closing directors, officers, employees and Representatives, from and against any liability or obligation to providers of the financing for the Contemplated Transactions in connection with any such financing and any information provided in connection therewith. Neither the Company and its Subsidiaries nor the Seller shall have any liability to the Buyer in respect of any financial information or data or other information provided pursuant to this Section 8.9.2 . If this Agreement is terminated for any reason, the Buyer shall reimburse the Company for all reasonable out-of-pocket costs incurred by the Company and its Subsidiaries in connection with this Section 8.9.2 .

8.10. Settlement of Litigation . The Company shall use commercially reasonable efforts to settle (or cause to be settled), as promptly as reasonably practicable, to the reasonable satisfaction of the Buyer, all

claims relating to *Encompass Medical Group, P.A. v. Advanced Homecare Holdings, Inc* . (No. 14-2447) filed in the U.S. District Court for the District of Kansas.

8.11. Amendments to Certain Organizational Documents . Prior to the Closing, the Company shall have amended (or caused to be amended), in a manner reasonably satisfactory to the Buyer, the partnership agreements listed on Schedule 3.2 .

**9. Indemnification**

9.1. Survival . The parties, intending to modify any applicable statute of limitations, agree that (a) each of (i) the Seller Fundamental Representations and the representations and warranties of the Company set forth in Sections 3.7 (Taxes), 3.12 (Healthcare Matters) and Section 3.18.2 (Labor Matters) (collectively with the Seller Fundamental Representations, the " Specified Representations "), (ii) the Buyer Fundamental Representations, and (iii) the covenants and agreements of the parties set forth in Section 8.3.2 and the covenants and agreements of the parties hereto to the extent they, by their terms, contemplate or provide for performance prior to the Closing, shall survive the Closing until the fifteen (15) month anniversary of the Closing Date (the " Escrow Termination Date "), (b) all other representations and warranties contained in this Agreement, or in any certificate delivered pursuant hereto or in connection herewith, shall terminate effective as of the Closing and shall not survive the Closing for any purpose and thereafter there shall be no liability on the part of, nor shall any claim be made by, any party or any of their respective Affiliates in respect thereof (and no indemnification claims may be brought under such representations and warranties at any time), and (c) all other covenants and agreements of the parties contained in this Agreement, or in any certificate delivered pursuant hereto or in connection herewith, shall survive the Closing in accordance with their terms. No claim may be made seeking indemnification for breaches of any Specified Representations, covenants or agreements pursuant to this Section 9 after the Escrow Termination Date unless a written notice of such claim is provided to the applicable Indemnifying Party in accordance with this Section 9 prior to the Escrow Termination Date. Each claim made by a Buyer Indemnified Party or Seller Indemnified Party for indemnification pursuant to Sections 9.2 or 9.3 prior to the Escrow Termination Date, if then unresolved, will survive the Escrow Termination Date until such claim is resolved. Notwithstanding anything herein to the contrary, (i) all claims for indemnification pursuant to Section 9.2.1(a) by any Buyer Indemnified Party will immediately terminate and expire at such time as all Escrow Funds have been distributed or released in accordance with the terms of the Escrow Agreement and this Agreement and (ii) nothing contained in this Section 9 shall restrict or prohibit any Buyer Indemnified Party from making, pursuing or collecting on any claim under any representation and warranty insurance policy obtained by the Buyer in connection with this Agreement and the Contemplated Transactions.

9.2. Indemnity by the Sellers .

9.2.1. (a) From and after the Closing, subject to Section 8.7 and the provisions of this Section 9 , each Seller, severally, but not jointly or jointly and severally, in accordance with its Pro Rata Portion (and no individual Seller shall be responsible for more than its Pro Rata Portion), shall indemnify the Buyer and each of its Affiliates (including the Acquired Companies) and each of their respective successors and assigns (collectively, the " Buyer Indemnified Parties ") and hold them harmless from and against any and all Losses imposed on or suffered or incurred by the Buyer Indemnified Parties (i) to the extent resulting from or arising out of or in connection with any breach of any of the Specified Representations (other than any breaches by a Material Holder of the representations and warranties set forth in Sections 4.2 and 4.3 , which are subject to Section 9.2.1(b) below) or the failure to perform any covenant or agreement of the Sellers in this Agreement or any covenant or agreement in this Agreement that is required by its terms to be performed by the Company prior to the Closing; and (ii)

for unpaid Taxes of the Acquired Companies for any Pre-Closing Tax Period, except to the extent otherwise provided in Section 8.7.2(b) and in any case without duplication of amounts paid to the Buyer pursuant to Section 8.7 .

(b) From and after the Closing, subject to the provisions of this Section 9 , each Material Holder shall indemnify the Buyer Indemnified Parties and hold them harmless from and against any and all Losses imposed on or suffered or incurred by the Buyer Indemnified Parties to the extent resulting from or arising out of or in connection with any breach by such Material Holder of any of the representations and warranties set forth in Sections 4.2 and 4.3 . For the avoidance of doubt, no Material Holder shall be liable under this Section 9.2.1(b) for any breach by any other Material Holder of any of the representations and warranties set forth in Sections 4.2 and 4.3 .

9.2.2. The Sellers' aggregate liability in respect of claims for indemnification pursuant to Section 9.2.1(a) will not exceed the Escrow Amount, it being understood and agreed that the Buyer Indemnified Parties shall have recourse for indemnification under this Section 9 solely and exclusively to, and to the extent of, the Escrow Funds in accordance with this Section 9 for claims for indemnification pursuant to Section 9.2.1(a) . In no event shall any Material Holder's aggregate liability pursuant to this Section 9 exceed the amount of Purchase Price actually received by such Material Holder.

9.2.3. Except as relates to indemnification for (x) claims under the Seller Fundamental Representations, Section 3.7 or Section 3.20 , (y) claims under Section 9.2.1 (a)(ii) , or (z) breach of any covenant or agreement to be performed prior to the Closing Date, the Buyer Indemnified Parties will not be entitled to indemnification under this Section 9 for indemnification pursuant to Section 9.2.1(a) unless and until (a) with respect to any individual item, or series of related items, of Loss, such item is greater than $50,000 (any individual items, or series of related items, of Loss that are less than or equal to $50,000, shall be " Minor Claims ") and (b) the aggregate Losses for which indemnification would otherwise be available under Section 9.2.1(a) (excluding Minor Claims) exceed $3,000,000 (the " Deductible "), at which point indemnification shall be available to the Buyer Indemnified Parties under Section 9.2.1(a) only for those Losses in excess of the Deductible. For the avoidance of doubt, the parties hereto agree that the limitations in this Section 9.2.3 shall not apply with respect to claims for indemnification pursuant to Section 9.2.1(b) or the matters described in clauses (x), (y), and (z) of this Section 9.2.3 .

The applicable Buyer Indemnified Party will provide the Sellers' Representative with a prompt, detailed written notice for any claim made in respect of the indemnification provided in this Section 9.2 (including the basis of such claim, the provisions of this Agreement alleged to have been breached and the amount of Losses incurred or suffered, or expected to be incurred or suffered, with respect thereto), whether or not arising out of a Third Party Claim.

9.3. Indemnity by the Buyer . From and after the Closing, subject to the provisions of this Section 9 , the Buyer shall indemnify the Sellers' Representative, each Seller and each of their respective Affiliates and each of the respective successors and assigns of the foregoing (collectively, the " Seller Indemnified Parties ") and hold them harmless from and against any and all Losses imposed on or suffered or incurred by the Seller Indemnified Parties (a) to the extent resulting from, arising out of or in connection with any breach of the Buyer Fundamental Representations or failure to perform any covenant or agreement of the Buyer in this Agreement or any covenant or agreement to be performed by the Acquired Companies following the Closing, or (b) with respect to Transfer Taxes or any Taxes described in clause (x), (y), or (z) of Section 8.7.2(b) .

The applicable Seller Indemnified Party or the Sellers' Representative will provide the Buyer with a prompt, detailed written notice for any claim made in respect of the indemnification provided in this Section 9.3 (including the basis of such claim, the provisions of this Agreement alleged to have been breached and the amount of Losses incurred or suffered, or expected to be incurred or suffered, with respect thereto), whether or not arising out of a Third Party Claim.

9.4. Calculation of Losses; Materiality .

9.4.1. For purposes of determining the amount of any Losses subject to indemnification under this Section 9 , the amount of such Losses will be determined net of (a) any amounts taken into account as liabilities in the calculation of the Final Working Capital Amount or any other adjustments to the Purchase Price set forth in Section 2.5 , (b) all liabilities reflected in the Financial Statements, (c) the sum of any amounts recovered under insurance policies or other amounts recovered from third parties with respect to such Losses (net of any actual out-of-pocket expenses incurred in collecting such amounts) (" Insurance Proceeds ") and (d) any Tax benefit actually received by the Indemnified Party (or any consolidated, combined or unitary group of which the Indemnified Party is also a member, or any direct or indirect partner or member of the Indemnified Party) in the year of or within the two years subsequent to the year of the Loss, attributable to the incurrence, accrual, or payment of such Losses. For purposes of determining the year in which any such Tax benefit is actually realized by the Buyer, the parties shall treat all other losses, deductions, and credits of the Buyer for the applicable Post-Closing Tax Period as having been used prior to the Loss giving rise to such Tax benefit. In the event that any Insurance Proceeds or such Tax Benefits are received by an Indemnified Party after payment for the related indemnification claim has been made pursuant to this Section 9 , then the Indemnified Party shall pay to the Sellers' Representative (for further distribution to the Sellers) or the Buyer, as the case may be, an amount equal to the amount of the Tax benefits or the reduction in Losses that would have been applied pursuant to the first sentence of this Section 9.4 had such Insurance Proceeds been received at the time such indemnification claim was made; provided that any payments in respect of Options shall be paid to the Company for further distribution to the Optionholders, net of the amount, if any, required to be withheld under applicable Tax laws with respect to such payment, including any employer contribution with respect thereto. Each Indemnified Party shall use commercially reasonable efforts to seek recovery from third parties who may be responsible, in whole or in part, for Losses suffered by such Indemnified Party and to make claims under insurance policies providing coverage with respect to Losses suffered by such Indemnified Party.

9.4.2. Except in the case of (a) the Materiality Qualifiers contained within any defined term that is defined or referenced in Section 1.2 of this Agreement, and (b) the representations and warranties set forth in Section 3.5 (Financial Statements, Etc.) and clause (c) of Section 3.6 (Ordinary Course of Business; No Material Adverse Effect), the parties hereby acknowledge and agree that for purposes of this Section 9 , Materiality Qualifiers shall be ignored in determining (i) whether a breach of a representation or warranty has occurred and (ii) the amount of the applicable Losses arising from any such breach.

9.5. Matters Involving Third Parties .

9.5.1. If any third party notifies any Indemnified Party with respect to any matter that may give rise to a claim for indemnification against any Indemnifying Party under this Section 9 (a " Third Party Claim "), then the Indemnified Party will promptly notify in writing the Indemnifying Party of such Third Party Claim (such notification, a " Claim Notice ") describing in reasonable detail the basis for such Third Party Claim (including identification of the provisions of this Agreement alleged to

have been breached and the amount of Losses incurred or suffered, or expected to be incurred or suffered, with respect thereto) and enclosing copies of any documents then available to the Indemnified Party relating to such Third Party Claim and thereafter provide the Indemnifying Party such documents and information with respect thereto that the Indemnifying Party may reasonably request; provided , however , that no delay on the part of the Indemnified Party in notifying any Indemnifying Party will relieve the Indemnifying Party from any indemnification obligation hereunder unless and to the extent that the Indemnifying Party is prejudiced thereby. Thereafter, the Indemnified Party will promptly deliver to the Indemnifying Party following receipt thereof, copies of all notices, demands and other documents (including court papers) received by the Indemnified Party relating to the Third Party Claim. This Section 9.5 shall not apply to the conduct of any Tax Proceedings, which shall be exclusively governed by Section 8.7 .

9.5.2. The Indemnifying Party will have the right to control the defense of the Third Party Claim with counsel of its choice; provided , however , that the Indemnifying Party shall have no right to assume the conduct or control of a Third-Party Claim (i) if the amount of Losses alleged in such Third Party Claim are reasonably expected to exceed two times the remaining Escrow Funds that are not then subject to the reasonably expected Losses alleged in other pending indemnification claims made in accordance with this Section 9 ; (ii) that seeks injunctive relief, equitable remedies or other non-monetary remedies; (iii) that includes criminal charges; or (iv) with respect to which the Indemnifying Party is also a defendant and, under applicable principles of legal ethics, in the judgment of counsel to the Indemnified Party, a conflict of interest exists or arises that would prohibit a single counsel from representing both the Indemnifying Party and the Indemnified Party in connection with the defense of such Third Party Claim. Within six (6) months of any election by the Indemnifying Party to assume the conduct or control of a Third Party Claim, such Indemnifying Party shall notify the Indemnified Party whether such Indemnifying Party acknowledges that such Third Party Claim is within the scope of such Indemnifying Party's indemnification obligations hereunder. In the event that the Indemnifying Party fails to acknowledge such indemnification obligations within such six (6) month period, the Indemnified Party shall have the right to elect to takeover and assume the conduct and control of such Third Party Claim from the Indemnifying Party, subject to Section 9.5.3 below. If the Indemnified Party fails to provide written notice to the Indemnifying Party in accordance with the terms of this Agreement that it so elects to take over and assume the conduct and control of such Third Party Claim within 15 Business Days following the end of such six (6) month period, then the Indemnified Party will be deemed to have waived such right to elect and the Indemnifying Party shall have the right to control the defense of such Third Party Claim.

9.5.3. If the Indemnifying Party is conducting the defense of the Third Party Claim, (a) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim (but not of record, and shall not communicate with the Person asserting the Third Party Claim or its Representatives), (b) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim, nor take any voluntary action prejudicial to the determination of the Third Party Claim, without the prior written consent of the Indemnifying Party and (c) the Indemnifying Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim unless (i) written agreement is obtained releasing the Indemnified Party subject to the Third Party Claim from all liability thereunder, (ii) it involves only the payment of money and (iii) the judgment or settlement does not involve any finding or admission of a violation of any Legal Requirement by the Indemnified Party. If the Indemnifying Party is not conducting the defense of the Third Party Claim, the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to such Third Party

Claim without the prior written consent of the Indemnifying Party (such consent not to be unreasonably withheld, conditioned, or delayed).

9.5.4. Each party will, and will cause their respective Affiliates to, reasonably cooperate in the defense or prosecution of any Third Party Claim and, subject to Section 11.16 , will furnish or cause to be furnished such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials or appeals, as may be reasonably requested in connection therewith.

9.6. Mitigation . Each Indemnified Party agrees to use its commercially reasonable efforts to mitigate any loss for which such Indemnified Party seeks indemnification under this Agreement, to the extent consistent with the common law doctrine of mitigation. The Buyer acknowledges and agrees that the Sellers will have no liability under any provision of this Agreement for any Loss to the extent that such Loss relates to action or inaction by Buyer, any of the Acquired Companies or any of their respective Affiliates after the Closing.

9.7. Tax Treatment . The Buyer and the Sellers will treat any payment received pursuant to Section 2.4 , Section 2.5.5 , Section 8.7 , this Section 9 , or any release from the Escrow Account as a payment of, or an adjustment to, the purchase price for the Sold Shares for Tax and financial reporting purposes.

9.8. Acknowledgement by the Buyer .

9.8.1. The Buyer acknowledges that it has conducted, to its satisfaction, an independent investigation and verification of the financial condition, results of operations, assets, liabilities, properties and projected operations of the Acquired Companies and, in making its determination to proceed with the Contemplated Transactions, the Buyer has relied on the results of its own independent investigation and verification, in addition to the representations and warranties of the Company and the Sellers expressly and specifically set forth in Sections 3 and 4 of this Agreement. SUCH REPRESENTATIONS AND WARRANTIES BY THE COMPANY AND THE SELLERS CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLERS, AS APPLICABLE, TO THE BUYER IN CONNECTION WITH THIS AGREEMENT OR THE CONTEMPLATED TRANSACTIONS, WHETHER IN WRITING, ORALLY OR OTHERWISE, AND THE BUYER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED (INCLUDING ANY RELATING TO THE FUTURE OR HISTORICAL FINANCIAL CONDITION, RESULTS OF OPERATIONS, ASSETS OR LIABILITIES OF THE ACQUIRED COMPANIES OR THE ACCURACY AND COMPLETENESS OF ANY INFORMATION SUPPLIED RELATING TO THE ACQUIRED COMPANIES) ARE SPECIFICALLY DISCLAIMED BY THE COMPANY AND THE SELLERS AND ARE NOT BEING RELIED UPON BY THE BUYER OR ANY OF ITS REPRESENTATIVES OR AFFILIATES.

9.8.2. The Buyer understands, acknowledges and agrees that, except for claims of intentional fraud based upon, subject to Section 9.8.1 , the representations and warranties made by the Company and the Sellers, respectively (which claims shall, notwithstanding any provisions of this Agreement or the Escrow Agreement, be asserted solely against the individual Seller that committed such intentional fraud), following the Closing, the indemnification provided to Buyer Indemnified Parties pursuant to, and subject to the terms and conditions of, this Section 9 shall be the sole and exclusive monetary remedy of the Buyer Indemnified Parties against the Sellers or any of their respective officers, directors, equity holders, agents, representatives or Affiliates or any other Person, whether in law or

in equity, with respect to the subject matter of this Agreement and that the Buyer Indemnified Parties shall have no other monetary remedy or recourse with respect to any of the foregoing other than indemnification pursuant to, and subject to the terms and conditions of, Section 9 .

9.9. Manner of Payment; Seller Reimbursement .

9.9.1. Payment of any indemnification obligations of the Sellers pursuant to Section 9.2.1(a) , subject in each case to the limitations in this Section 9 , will be made solely from the Escrow Funds. Payment of any indemnification obligations pursuant to Section 9.2.1(b) shall be made by the applicable Material Holder. Any indemnification payment to be made by the Buyer or any Material Holder for amounts in excess of the Escrow Funds pursuant to this Section 9 will be effected by wire transfer of immediately available funds from the Buyer or such Material Holder, as applicable, to the account designated by the Sellers' Representative (in the case of a payment to be made to a Seller) or by the Buyer, as applicable, within five (5) Business Days after such Losses have been determined by (a) a final, non-appealable order or judgment of a court of competent jurisdiction or (b) a written, executed agreement between the Buyer and the Sellers' Representative (provided that any payments in respect of Options shall be paid to the Company for further distribution to the Optionholders, net of the amount, if any, required to be withheld under applicable Tax laws with respect to such payment).

9.9.2. Each Seller agrees that if, pursuant to this Section 9 , a payment is actually made from the Escrow Account to any Buyer Indemnified Party to satisfy the indemnification obligations of the Sellers for an individual Seller's breach of any of the Specified Representations in Section 4 (any such payment, an " Individual Seller Payment "), such breaching Seller shall, within five (5) Business Days of the date such Individual Seller Payment is actually made, pay to the Sellers' Representative an amount, in cash, equal to (a) the amount of the applicable Individual Seller Payment, *minus* (b) the breaching Seller's Pro Rata Portion of the applicable Individual Seller Payment. The Sellers' Representative shall, within five (5) Business Days of receiving any payment pursuant to the first sentence of this Section 9.9.2 , pay to each Seller, other than the applicable breaching Seller, an amount, in cash, equal to such other Seller's Pro Rata Portion of the Individual Seller Payment (provided that any payments in respect of Options shall be paid to the Company for further distribution to the Optionholders, net of the amount, if any, required to be withheld under applicable Tax laws with respect to such payment). Any payment which any Seller is entitled to receive under this Agreement may be reduced by any amount owed by such Seller to any of the other Sellers pursuant to this Section 9.9.2 , and such owed amount shall instead be paid by the Sellers' Representative to the applicable other Sellers in accordance with each such other Seller's Pro Rata Portion of such owed amount (provided that any payments in respect of Options shall be paid to the Company for further distribution to the Optionholders, net of the amount, if any, required to be withheld under applicable Tax laws with respect to such payment).

9.10. Subrogation . Upon making any payment to any Indemnified Party for any indemnification claim pursuant to this Section 9 , the Indemnifying Party will be subrogated, to the extent of such payment, to any rights that the Indemnified Party may have against other Persons with respect to the subject matter of such claim for indemnification. The Indemnified Party shall take such commercially reasonable actions as the Indemnifying Party may reasonably request for the purpose of enabling the Indemnifying Party to perfect or exercise the Indemnifying Party's right of subrogation hereunder.

**10. Termination.**

10.1. Termination . The parties may not terminate this Agreement other than as follows:

10.1.1. This Agreement may be terminated at any time prior to the Closing by mutual written consent of the Buyer and the Sellers' Representative.

10.1.2. The Buyer may terminate this Agreement by delivering written notice to the Sellers' Representative at any time prior to the Closing in the event (a) any Seller or the Company is in material breach of any covenant, representation or warranty contained in this Agreement, (b) the Buyer has notified the Sellers' Representative of the breach in writing, (c) such breach has resulted in, would result in, or would be reasonably be expected to result in, the failure of any condition set forth in Section 6.1 or 6.2 and (d) such breach is incapable of cure or has continued without cure for a period of ten (10) Business Days after delivery of such notice of breach; provided , however , that the Buyer shall not have the right to terminate this Agreement pursuant to this Section 10.1.2 if the Buyer is then in material breach of this Agreement or has otherwise breached the Agreement in a manner that caused or resulted in such Seller or Company breach.

10.1.3. The Sellers' Representative may terminate this Agreement by delivering written notice to the Buyer at any time prior to the Closing in the event (a) the Buyer is in material breach of any covenant, representation or warranty contained in this Agreement, (b) the Sellers' Representative has notified the Buyer of the breach in writing, (c) such breach has resulted in, would result in, or would be reasonably be expected to result in, the failure of any condition set forth in Section 7.1 or 7.2 and (d) such breach is incapable of cure or has continued without cure for a period of ten (10) Business Days after delivery of such notice of breach; provided , however , that the Sellers' Representative shall not have the right to terminate this Agreement pursuant to this Section 10.1.3 if any of the Sellers or the Company is then in material breach of this Agreement or has otherwise breached the Agreement in a manner that caused or resulted in such Buyer breach.

10.1.4. The Buyer, on the one hand, or the Sellers' Representative, on the other hand, may terminate this Agreement by providing written notice to the other at any time on or after March 31, 2015 (the " Expiration Date "), if the Closing shall not have occurred by the Expiration Date; provided that (a) the Buyer shall not have the right to terminate this Agreement pursuant to this Section 10.1.4 if the Company or the Sellers' Representative is pursuing an action or proceeding seeking an injunction or specific performance with respect to the Buyer's obligations hereunder; (b) the Sellers shall not have the right to terminate this Agreement pursuant to this Section 10.1.4 if the Buyer is pursuing an action or proceeding seeking an injunction or specific performance with respect to the Sellers' obligations hereunder; and (c) neither party shall have the right to terminate this Agreement pursuant to this Section 10.1.4 if that party's breach of any provision of the Agreement has caused or resulted in the failure of the Transaction to be consummated by the Expiration Date.

10.1.5. Either the Buyer, on the one hand, or the Sellers' Representative, on the other hand, may terminate this Agreement by delivering written notice to the other if any Governmental Authority issues an order, decree, judgment, ruling or injunction permanently enjoining, restraining or otherwise prohibiting the Contemplated Transactions and such order, decree, judgment, ruling or injunction shall have become final and non-appealable; provided that the Person seeking to terminate pursuant to this Section 10.1.5 (or, in the case where the Sellers' Representative is seeking to terminate, the Company) has fully complied with its obligations under Section 8.4 .

10.1.6. The Sellers' Representative may terminate this Agreement by delivering written notice to the Buyer at any time prior to the Closing in the event that the conditions set forth in Section 6 have been satisfied (other than those conditions that by their terms are to be satisfied at the Closing), the Sellers' Representative has confirmed that the Sellers and the Company are prepared to consummate

the Closing, and the Buyer fails to complete the Closing on the date the Closing should have occurred pursuant to Section 2.3 (a " Buyer Failure to Close "), so long as such Buyer Failure to Close is incapable of cure or has continued without cure for a period of five (5) Business Days after delivery to the Buyer of written notice of the Buyer Failure to Close.

Notwithstanding anything to the contrary in this Agreement, the Buyer may not terminate this Agreement following any Buyer Failure to Close. The party seeking to terminate this Agreement pursuant to Sections 10.1.2 , 10.1.3 , 10.1.4 , 10.1.5 , or 10.1.6 will give written notice of such termination to the other parties.

10.2. Effect of Termination . If this Agreement is terminated pursuant to Section 10.1 , all rights and obligations of the parties hereunder will terminate without any liability of any party or any Affiliate thereof; provided , however , that (a) the rights and obligations of the parties under Section 8.3 (Confidentiality), Section 9.8 (Acknowledgement by the Buyer), this Section 10.2 (Effect of Termination), Section 1 (Definitions) and Section 11 (Miscellaneous), and the Confidentiality Agreement, will, in each case, survive termination of this Agreement and remain valid and binding obligations of the parties, and (b) nothing herein will relieve any party to this Agreement from liability (i) pursuant to the sections specified in this Section 10.2 that survive such termination, (ii) subject to Section 9.8 , for intentional fraud or (iii) for any material breach of any covenant or agreement contained herein occurring prior to termination.

**11. Miscellaneous.**

11.1. Notices . All notices, requests, demands, claims and other communications required or permitted hereunder will be in writing and will be sent by personal delivery, nationally recognized overnight courier or facsimile or, provided that one of the foregoing methods of delivery is also used, by e-mail (as a PDF). Any notice, request, demand, claim, or other communication required or permitted hereunder will be deemed duly given, as applicable, (a) upon personal delivery, (b) one (1) Business Day following the date sent when sent by courier delivery or (c) upon confirmation of receipt when sent by facsimile or e-mail (as a PDF), addressed as follows:

If to any Seller or, prior to the Closing, the Company, to the Sellers' Representative, to:

EHHI Sellers' Representative, LLC
c/o Cressey & Company LP
155 N. Wacker Drive
Suite 4500
Chicago, Illinois 60606

with copies (which will not constitute notice) to:

Ropes & Gray LLP
191 N. Wacker Drive, 32 nd Floor
Chicago, IL 60606
Telephone number: (312) 845-1200
Facsimile number: (312) 845-5505
Email: neill.jakobe@ropesgray.com;
timothy.castelli@ropesgray.com
Attention: Neill Jakobe; Timothy Castelli

If to the Buyer, or, after the Closing, to the Company, to:

HealthSouth Corporation
3660 Grandview Parkway, Suite 200
Birmingham, Alabama 35243
Telephone number: (205) 967-7116
Facsimile number: (205) 262-3948
Attention: Douglas E. Coltharp
John P. Whittington

with a copy (which will not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
920 North King Street
Wilmington, Delaware 19801
Telephone number: (302) 651-3000
Facsimile number: (302) 434-3090
Attention: Robert B. Pincus

Any party may change the address to which notices, requests, demands, claims, and other communications required or permitted hereunder are to be delivered by providing to the other parties notice in the manner herein set forth.

11.2. Provisions Concerning Sellers' Representative .

11.2.1. Appointment . Each Seller hereby irrevocably appoints the Sellers' Representative to serve (and the Buyer hereby acknowledges that the Sellers' Representative will serve) as the exclusive agent, proxy and attorney-in-fact for such Seller for all purposes under this Agreement and the Escrow Agreement (including full power and authority to act on behalf of such Seller).

11.2.2. Duties . Without limiting the generality of the foregoing appointment, the Sellers' Representative is authorized and empowered to:

(a) in connection with the Closing, execute and receive all documents, instruments, certificates, statements and agreements on behalf of and in the name of each Seller necessary or desirable to effectuate the Closing and consummate the Contemplated Transactions;

(b) enter into and, if appropriate in its sole discretion, amend the Escrow Agreement on behalf of the Sellers;

(c) execute and deliver, should it elect to do so in its sole discretion, on behalf of each Seller, any amendment to this Agreement so long as the express terms of such amendment do not adversely and disproportionately affect the rights or obligations of any Seller as compared to any other Sellers, and in the case of any such effect on a Seller or Sellers, the Seller or Sellers so adversely and disproportionately affected, must provide their prior written consent for any such action to be taken;

(d) take such action as it may deem appropriate in connection with any disputes with any Buyer Indemnified Party pursuant to this Agreement, the Escrow Agreement or any of the Contemplated Transactions;

(e) take such action as it may deem appropriate in connection with the defense, pursuit or settlement of any determinations relating to Cash on Hand and Working Capital in accordance with Section 2.5 and consent to the disbursement by the Escrow Agent of payments from the Escrow Funds in connection therewith;

(f) engage and employ, on behalf of the Sellers, agents and representatives (including legal counsel and other professionals) and incur such expenses as the Sellers' Representative may in its sole discretion determine necessary or appropriate in connection with the administration of the foregoing, at the expense of the Sellers;

(g) pay or cause to be paid all expenses incurred or to be incurred by or on behalf of the Sellers in connection with this Agreement or the Escrow Agreement, or establish such reserves as the Sellers' Representative may from time to time determine, in its sole discretion, to be necessary or desirable in connection with the expenses and other costs to be borne by the Sellers hereunder, and direct the Buyer, or the Escrow Agent, as the case may be, to make payment of such amounts to be applied to such reserves in lieu of the payment to the Sellers hereunder;

(h) accept, deliver and receive instructions and notices required or permitted under this Agreement and the Escrow Agreement;

(i) take all other actions to be taken by or on behalf of any Seller and exercise any and all rights that any Seller is permitted or required to do or exercise under this Agreement; and

(j) take all other actions that are either necessary or appropriate in its judgment for the accomplishment of the foregoing or contemplated by the terms of this Agreement or the Escrow Agreement.

The Sellers' Representative will have no duties or responsibilities except for those expressly set forth herein, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on behalf of any Seller will exist with respect to the Sellers' Representative in its capacity as such.

11.2.3. Actions Binding. The agencies and proxies created hereunder by the Sellers are coupled with an interest and are therefore irrevocable without the consent of the Sellers' Representative, and will survive the death, incapacity, bankruptcy, dissolution or liquidation of any Seller. All decisions and acts by the Sellers' Representative will be binding upon the Sellers and no Seller will have the right to object, dissent, protest or otherwise contest the same. Without limiting the generality of the foregoing, any notice delivered or payment made by the Buyer or the Escrow Agent to the Sellers' Representative will be treated as having been delivered or made, as the case may be, to each Seller entitled thereto, regardless of the actions taken or not taken by the Sellers' Representative following receipt of such notice or payment.

11.2.4. Reliance. The Sellers' Representative is authorized to act on behalf of the Sellers in accordance with the terms of this Section 11.2, notwithstanding any dispute or disagreement with or among the Sellers. The Buyer and any other third party will be entitled to rely on any and all actions taken by the Sellers' Representative without any liability to, or obligation to inquire of, any of the Sellers. The Buyer and any such other third party is and will be fully protected and indemnified by the Sellers in acting or refraining from acting upon and relying upon any notice, instruction, direction, request, waiver, consent, receipt or other paper or document in writing that the Buyer or such other third party in good faith reasonably believes has been signed by the Sellers' Representative.

11.2.5. Liability of Sellers' Representative and Buyer Indemnified Parties; Indemnification.

(a) Neither the Sellers' Representative, any Buyer Indemnified Party, nor any of their respective Representatives will be liable to any Seller, or any other Person, relating to the performance of the Sellers' Representative's duties and obligations under this Agreement or the Escrow Agreement for any errors in judgment, negligence, oversight, breach of duty or otherwise, except to the extent it is determined in a final and non-appealable order or judgment by a court of competent jurisdiction by clear and convincing evidence that the actions taken or not taken by the Sellers' Representative constituted knowing, willful and intentional misconduct. The Sellers' Representative and its Representatives will be indemnified and held harmless by the Sellers, severally, but not jointly or jointly and severally, each in accordance with its respective Pro Rata Portion, from and against any and all losses, expenses and all other damages paid or otherwise incurred in any action, suit, proceeding or claim to which the Sellers' Representative is made a party by reason of the fact that the Sellers' Representative was acting

as such pursuant to this Agreement or the Escrow Agreement; provided, however, that the Sellers' Representative will not be entitled to indemnification hereunder to the extent it is determined in a final and non-appealable order or judgment by a court of competent jurisdiction by clear and convincing evidence that the actions taken or not taken by or on behalf of the Sellers' Representative constituted knowing, willful and intentional misconduct. The Sellers' Representative will be fully protected in acting upon any notice, statement or certificate believed by the Sellers' Representative to be genuine and to have been furnished by the appropriate Person and in acting or refusing to act on any matter unless such action constitutes knowing, willful and intentional misconduct as determined in a final non-appealable order or judgment by a court of competent jurisdiction by clear and convincing evidence.

(b) The Sellers' Representative is serving in that capacity solely for purposes of administrative convenience, and is not liable in such capacity or any other capacity for any of the obligations of the Acquired Companies or the Sellers hereunder; and the Buyer agrees, on behalf of the Buyer Indemnified Parties that none of them will in any event look to the personal assets of the Sellers' Representative, acting in such capacity or any other capacity, for the satisfaction of any obligations to be performed by the Acquired Companies or the Sellers hereunder.

(c) From and after the Closing, no Buyer Indemnified Party shall have any liability to the Sellers' Representative or any Seller for (i) the calculation of the Allocation Schedule or (ii) any amounts that have been paid to the Sellers in accordance with the terms of the Allocation Schedule and this Agreement.

(d) The shares of Class C Common Stock do not vest as a result of the Contemplated Transactions, and each holder of shares of Class C Common Stock acknowledges and agrees that such shares of Class C Common Stock shall be cancelled at the Closing and that such holder is not entitled to any portion of the Purchase Price with respect to such shares of Class C Common Stock.

11.2 Sellers' Representative Reserve. The Sellers' Representative will have the right to recover, at its sole discretion, from the Sellers' Representative Reserve and the Escrow Funds (but, in the case of the Escrow Funds, only out of any funds remaining for disbursement to the Sellers from the Escrow Account after the Escrow Termination Date pursuant to terms and conditions of the Escrow Agreement), prior to any distribution to the Sellers, (i) the Sellers' Representative's reasonable out-of-pocket expenses (including fees and charges of counsel, accountants and other Representatives) incurred in serving in that capacity and (ii) any amounts to which it is entitled pursuant to the indemnification provision in Section 11.2.5(a) (each item in clauses (i) and (ii) of this Section 11.2.6 referred to as a " Charge ", and collectively the " Charges "). In the event the amount of the Escrow Funds (to the extent available therefor) and the Sellers' Representative Reserve available to satisfy Charges (the " Remaining Escrow Property ") is insufficient to satisfy all Charges, then the Sellers shall, severally, but not jointly or jointly and severally, each in accordance with its Pro Rata Portion, pay the Charges in excess of the Remaining Escrow Property. The Sellers' Representative shall hold the Sellers' Representative Reserve on behalf of the Sellers as an agent of the Sellers. At such time and from time to time that the Sellers' Representative determines in its good faith discretion that a portion of the Sellers' Representative Reserve will not be required for the payment of such Charges, the Sellers' Representative shall distribute to the Sellers, in accordance with the Allocation Schedule, such applicable amounts from the Sellers' Representative Reserve (less any amounts required to be withheld pursuant to applicable federal, state and local withholding Laws).

11.2.7. Successor Sellers' Representative . Sellers representing a majority or more of the Securities, as measured by the Pro Rata Portion of the Sellers following the Closing, will be entitled, at any time or from time to time, upon ten (10) Business Days prior written notice to the Buyer, to appoint a successor Sellers' Representative hereunder; provided , however , that the appointment of such a successor will not deprive the Sellers' Representative so succeeded of any of the benefits of this Section 11 .

11.3. Expenses of Transaction . Whether or not the Contemplated Transactions are consummated, except as otherwise specifically provided for in this Agreement, each of the parties hereto will assume and bear all expenses, costs and fees (including legal and accounting fees and expenses) incurred by such party in connection with the preparation, negotiation and execution and performance of this Agreement and the Escrow Agreement and the consummation of the Contemplated Transactions.

11.4. Entire Agreement . The agreement of the parties that is comprised of this Agreement (including all Schedules and Exhibits hereto) and the Escrow Agreement sets forth the entire agreement and understanding between the parties and their respective Affiliates with respect to the subject matter thereof and supersedes any and all prior agreements, understandings, negotiations and communications (other than the Confidentiality Agreement), whether oral or written, relating to the subject matter of this Agreement or the Escrow Agreement.

11.5. Severability . If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or under public policy, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic and legal substance of the Contemplated Transactions are not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Sellers' Representative and the Buyer will negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the end that the Contemplated Transactions are fulfilled in accordance with the terms hereof to the greatest extent possible.

11.6. Amendment . This Agreement may be amended or modified, but only by an instrument in writing executed by each of the Buyer and the Sellers' Representative.

11.7. Parties in Interest . This Agreement will be binding upon and inure solely to the benefit of the parties hereto, and except as provided in Sections 8.6 , 9 , 11.16 and 11.18 , nothing in this Agreement, express or implied, is intended to or will be construed to or will confer upon any other Person any right, claim, cause of action, benefit or remedy of any nature whatsoever under or by reason of this Agreement, including by way of subrogation.

11.8. Assignment . This Agreement will be binding upon and inure to the benefit of and be enforceable by the successors and permissible assigns of the parties hereto. This Agreement and any rights and obligations hereunder may not be assigned, hypothecated or otherwise transferred by any party hereto (by operation of law or otherwise) without the prior written agreement of the Buyer and the Sellers' Representative, provided that the Buyer may assign any or all of its rights (but none of its obligations) under this Agreement to a wholly-owned Subsidiary; provided , further , that, after the Closing, any Seller may assign any or all of its rights (but none of its obligations) under this Agreement to any of its beneficial owners or successors by operation of law. Any purported assignment in breach of this Section 11.8 shall be null and void.

11.9. Governing Law . This Agreement, and all claims arising in whole or in part out of, related to, based upon, or in connection herewith or the subject matter hereof or the Contemplated Transactions will be governed by, construed and enforced in accordance with the laws of the State of Delaware, without giving

effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction.

11.10. Consent to Jurisdiction . Each party to this Agreement, by its execution hereof, hereby irrevocably (a) submits, subject to Section 2.5 , to the exclusive jurisdiction of the Delaware Court of Chancery (or if, but only if, the Delaware Court of Chancery declines to accept jurisdiction, the Superior Court of the State of Delaware or the United States District Court for the District of Delaware) for the purpose of any and all Actions arising in whole or in part out of, related to, based upon or in connection with this Agreement or the subject matter hereof or the Contemplated Transactions, (b) waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such action brought in one of the above-named courts should be dismissed on grounds of improper venue or *forum non conveniens* , should be transferred to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or any claims arising in whole or in part out of, related to, based upon, or in connection herewith or the subject matter hereof may not be enforced in or by such court, (c) agrees not to commence any such Action other than before one of the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such action to any court other than one of the above-named courts (subject in each case to clause (a) of this sentence) whether on the grounds of inconvenient forum or otherwise, (d) consents to service of process in any such Action in any manner permitted by the laws of the State of Delaware, (e) agrees that service of process made in accordance with clause (d) or made pursuant to Section 11.1 will constitute good and valid service of process in any such Action, and (f) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such Action any claim that service of process made in accordance with clause (d) or clause (e) does not constitute good and valid service of process. Notwithstanding the immediately preceding sentence, a party may commence an Action in any other court to enforce an order or judgment issued by one of the courts described in the immediately preceding sentence.

11.11. Waiver of Jury Trial . TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH OF THE PARTIES HERETO HEREBY WAIVES, AND AGREES TO CAUSE EACH OF ITS SUBSIDIARIES TO WAIVE, AND COVENANTS THAT NEITHER IT NOR ANY OF ITS SUBSIDIARIES SHALL ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ACTION DESCRIBED IN SECTION 11.10 . ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 11.11 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

11.12. Reliance . Each of the parties hereto acknowledges that it has been informed by each other party that the provisions of Sections 11.10 and 11.11 constitute a material inducement upon which such party is relying and will rely in entering into this Agreement, and each such party agrees that any breach by such party of any of the provisions of Sections 11.10 or 11.11 above would constitute a material breach of this Agreement.

11.13. Specific Enforcement . Each of the parties acknowledges and agrees that the other parties would be damaged immediately, extensively and irreparably and no adequate remedy at law would exist in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached or violated. Accordingly, in addition to, and not in limitation of, any other remedy available to any party, the parties agree that, without posting bond or similar undertaking, each of the other parties shall be entitled to an injunction or injunctions to prevent breaches or violations of the provisions

of this Agreement and to the remedy of specific performance of this Agreement and the terms and provisions hereof. Subject to Section 9 hereof, such remedies, and any and all other remedies provided for in this Agreement, will, however, be cumulative in nature and not exclusive and will be in addition to any other remedies to which such party may be entitled. Each party further agrees that, in the event of any action for injunctive relief or for specific performance in respect of any breach or violation, or threatened breach or violation, of this Agreement, it shall not assert the defense that a remedy at law would be adequate or that specific performance or injunctive relief in respect of such breach or violation should not be available on any other grounds.

11.14. No Waiver. No failure or delay on the part of any party hereto in the exercise of any right hereunder will impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty, covenant or agreement herein, nor will any single or partial exercise of any such right preclude any other or further exercise thereof or of any other right. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), or shall constitute a continuing waiver unless otherwise expressly provided. No waiver of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the party against whom such waiver is intended to be effective.

11.15. Negotiation of Agreement. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

11.16. Representation of the Sellers and their Affiliates. Buyer agrees, on its own behalf and on behalf of the Buyer Indemnified Parties, that, following the Closing, Ropes & Gray LLP may serve as counsel to the Sellers and their Affiliates in connection with any matters related to this Agreement or the Contemplated Transactions, including any litigation, claim or obligation arising out of or relating to this Agreement or the Contemplated Transactions notwithstanding any representation by Ropes & Gray LLP prior to the Closing Date of the Acquired Companies. Buyer and the Acquired Companies hereby (i) waive any claim they have or may have that Ropes & Gray LLP has a conflict of interest or is otherwise prohibited from engaging in such representation and (ii) agree that, in the event that a dispute arises after the Closing between the Buyer, any Buyer Indemnified Party or any Acquired Company, on the one hand, and any Sellers or any of their Affiliates, on the other hand, Ropes & Gray LLP may represent Sellers and/or any of their Affiliates in such dispute even though the interests of such Person(s) may be directly adverse to the Buyer, any Buyer Indemnified Party or any Acquired Company and even though Ropes & Gray LLP may have represented any Acquired Company in a matter substantially related to such dispute. Buyer and the Acquired Companies also further agree that, as to all communications among Ropes & Gray LLP and the Acquired Companies, the Sellers or Sellers' Affiliates and their respective Representatives, that relate directly to the negotiation of this Agreement and the consummation of the Contemplated Transactions, the attorney-client privilege and the expectation of client confidence belongs to the Sellers and shall be controlled by the Sellers' Representative on behalf of the Sellers and shall not pass to or be claimed by the Buyer, any Buyer Indemnified Party or any Acquired Company. Notwithstanding the foregoing, in the event that a dispute arises after the Closing between the Buyer, any Buyer Indemnified Party or any Acquired Company, on the one hand, and a third party other than (and not an Affiliate of) a party to this Agreement, on the other hand, an Acquired Company may assert the attorney-client privilege to prevent disclosure of confidential communications by Ropes & Gray LLP to such third party; provided, however, that such Acquired Company may not waive such privilege without the prior written consent of the Sellers' Representative (which consent shall not be unreasonably withheld, conditioned, or delayed). The Buyer acknowledges that it has consulted with independent counsel of its own choosing with respect to the meaning and effect of this Section 11.16.

11.17. Disclosure Schedules . The inclusion of any information in the Disclosure Schedules will not be deemed an admission or acknowledgment that such information is required to be listed in the Disclosure Schedules or that such items are material. The Disclosure Schedules are arranged in sections corresponding to the sections contained in this Agreement merely for convenience, and the disclosure of an item in one section of the Disclosure Schedules as an exception to a particular representation or warranty will be deemed adequately disclosed as an exception with respect to all other representations and warranties to the extent that the relevance of such item to such other representations or warranties is reasonably apparent on its face, notwithstanding the presence or absence of an appropriate cross-reference thereto.

11.18. No Recourse Against Third Parties .

11.18.1. No provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder; provided however , that the following Persons are expressly intended as third party beneficiaries with respect to the following specified sections of this Agreement and will have the right to enforce such specified sections against the parties to this Agreement: with respect to Section 8.6 , the Persons who are the beneficiaries of the rights under such Section; with respect to Section 9 , the Persons who are the beneficiaries of the indemnification under such Section; with respect to Section 11.16 , Ropes & Gray LLP; and with respect to Section 11.18.2 , the Nonparty Affiliates.

11.18.2. Notwithstanding any other provision of this Agreement, no claim (whether at law or in equity, whether in contract, tort, statute or otherwise) may be asserted by the Buyer, any Affiliate of the Buyer, or any Person claiming by, through or for the benefit of any of them, against any Person who is not party to this Agreement, including without limitation any equityholders, partners, members, controlling persons, directors, officers, employees, incorporators, managers, agents, Representatives, or Affiliates of any Acquired Company, any Seller or the heirs, executors, administrators, successors or assigns of any of the foregoing (or any Affiliate of any of the foregoing) (each a " Nonparty Affiliate " and, collectively, the " Nonparty Affiliates ") with respect to any matters arising under or relating to the Business, the Acquired Companies (including with respect to the operation of their respective businesses prior to the Closing or any other transaction, circumstance or state of facts involving the Acquired Companies prior to the Closing), this Agreement or the Contemplated Transactions or with respect to any actual or alleged inaccuracies, misstatements or omissions with respect to information furnished by or on behalf of the Acquired Companies or any Nonparty Affiliate concerning the Business, the Acquired Companies (including with respect to the operation of their respective businesses prior to the Closing or any other transaction, circumstance or state of facts involving the Acquired Companies prior to the Closing), this Agreement or the Contemplated Transactions.

11.19. Headings . The headings contained in this Agreement are inserted only for reference as a matter of convenience and in no way define, limit or describe the scope or intent of this Agreement, and will not affect in any way the construction, meaning or interpretation of this Agreement.

11.20. Counterparts; Electronic Signature . This Agreement may be executed in any number of counterparts, and by the different parties hereto in separate counterparts, each of which will be deemed an original for all purposes and all of which together will constitute one and the same instrument. This Agreement may be executed by facsimile or PDF signature by any party and such signature will be deemed binding for all purposes hereof without delivery of an original signature being thereafter required.

11.21. Parent Guarantee . Parent unconditionally and irrevocably agrees to take any and all actions necessary to cause the Buyer and HHHH to perform all of their covenants, agreements and obligations under this Agreement, including with respect to the consummation of the Contemplated Transactions and the payment of consideration hereunder. Parent unconditionally guarantees to the Acquired Companies and the Sellers the full and complete performance by the Buyer and HHHH of such covenants, agreements and obligations and shall be liable for any breach by the Buyer or HHHH of any such covenant, agreement or obligation. This is a guarantee of payment and performance. Parent hereby waives diligence, presentment, demand of performance, filing of any claim, any right to require any proceeding first against the Buyer or HHHH, protest, notice and all demands whatsoever in connection with the performance of its covenants, agreements and obligations set forth in this Section 11.21 .

[ *The remainder of this page is intentionally blank. Signatures follow.* ]

In witness whereof, the parties have caused this Agreement to be executed under seal by their respective duly authorized officers as of the day and year first written above.

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**PARENT:**

**HEALTHSOUTH CORPORATION**

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

**THE BUYER:**

**HEALTHSOUTH HOME HEALTH CORPORATION**

By: /s/ Douglas E. Coltharp
Name: Douglas E. Coltharp
Title: Vice President

**THE COMPANY:**

**EHHI HOLDINGS, INC.**

By: /s/ April Anthony
Name: April Anthony
Title: President

**THE SELLER'S REPRESENTATIVE:**

**EHHI SELLERS' REPRESENTATIVE, LLC**

By: THOMA CRESSEY FUND VIII, L.P.
Its: Managing Member

By: TC Partners VIII, L.P.
Its: General Partner

By: Toma Cressey Bravo, Inc.
Its: General Partner

By: /s/ Bryan Cressey
Name: Bryan Cressey
Title: Managing Partner

**THE SELLERS:**

**HCHB CONSULTING INC.**

By: /s/ April Anthony
Name: April Anthony
Title: President

**AGM CHILDREN'S HOMECARE INC.**

By: /s/ April Anthony
Name: April Anthony
Title: President

By: /s/ Mark O'Brien
Name: Mark O'Brien

By: /s/ April Anthony
Name: April Anthony

By: /s/ Tracey Kruse
Name: Tracey Kruse

By: /s/ Guy Conces
Name: Guy Conces

By: /s/ G. Robert Thompson
Name: Robert Thompson

By: /s/ Jennifer Polak
Name: Jennifer Polak

By: /s/ Luke James
Name: Luke James

By: /s/ Diane Smith
Name: Diane Smith

By: /s/ Judee Barrett
Name: Judee Barrett

By: /s/ Andrew Ingram
Name: Andrew Ingram

By: /s/ Woodrin Grossman
Name: Woodrin Grossman

By: /s/ John Fox
Name: John Fox

By: THOMA CRESSEY FUND VIII, L.P.

By: TC Partners VIII, L.P.
Its: General Partner

By: Toma Cressey Bravo, Inc.
Its: General Partner

By: /s/ Bryan Cressey
Name: Bryan Cressey
Title: Managing Partner

By: /s/ Dan Peoples
Name: Dan Peoples

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY

By: /s/ David A. Barras
Name: David A. Barras
Title: Its Authorized Representative

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY FOR ITS GROUP ANNUITY SEPARATE ACCOUNT

By: /s/ David A. Barras
Name: David A. Barras
Title: Its Authorized Representative

By: /s/ Dean Holland
Name: Dean Holland

THE CIT GROUP/EQUITY INVESTMENT, INC.

By: /s/ Michael Rebocho
Name: Michael Rebocho
Title: Vice President

**LIST OF SCHEDULES**

[ Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request. Further explanation of the contents of the omitted Schedules can be found in the Section of the Agreement referenced by the Schedule number. ]


Schedule 1.2(a) - Accounting Principles

Schedule 1.2(b) - Acquisition Cash and Acquisition Liabilities
Schedule 1.2(c) - Sample Allocation Schedule
Schedule 1.2(d) - Company Indebtedness

Schedule 1.2(e) - Cash on Hand

Schedule 2.1 - Shareholders

Schedule 2.5.1(a) - Sample Balance Sheet

Schedule 8.2 - Conduct of Business Prior to Closing - Company

Disclosure Schedules - Company and Sellers

**Exhibit 2.2**

**ROLLOVER STOCK AGREEMENT**

This ROLLOVER STOCK AGREEMENT is made as of November 23, 2014 (the " Agreement "), by and among HealthSouth Corporation, a Delaware corporation (" Parent "), HealthSouth Home Health Holdings, Inc., a Delaware corporation and wholly-owned subsidiary of Parent (" HHHH "), and the persons identified on Annex A hereto (each, a " Holder " and collectively, the " Holders ").

WHEREAS, each Holder is the owner of shares of Class A Common Stock, par value $0.01 per share, of EHHI Holdings, Inc., a Delaware corporation (" EHHI "), and/or Class B Common Stock, par value $0.01 per share, of EHHI (collectively, the " EHHI Common Stock "), in each case as set forth on Annex A hereto opposite the name of the Holder thereof;

WHEREAS, Parent, HealthSouth Home Health Corporation, a Delaware corporation (the " Buyer "), each Seller (including each Holder), EHHI and the Sellers' Representative are, concurrently with the execution of this Agreement, entering into that certain Stock Purchase Agreement, dated as of November 23, 2014 (the " Purchase Agreement "), pursuant to which Buyer agrees to purchase from the Sellers, and the Sellers agree to sell to Buyer (the immediate, wholly-owned subsidiary of HHHH), all of the outstanding shares of common stock of EHHI, other than those shares of EHHI Common Stock being contributed to HHHH pursuant to this Agreement, upon and subject to the terms and conditions set forth in the Purchase Agreement (the " Securities Purchase "); capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Purchase Agreement;

WHEREAS, following execution of this Agreement and immediately prior to the consummation of the Securities Purchase contemplated by the Purchase Agreement, each Holder will contribute to HHHH the Rollover Shares (as defined below) for such Holder, in exchange for the number of non-voting shares of common stock, par value $.01 per share, of HHHH (the " HHHH Non-Voting Common Stock ") as set forth herein; and

WHEREAS, for United States federal income tax purposes, it is intended that the formation and capitalization of HHHH, together with the contribution of Rollover Shares in exchange for shares of HHHH Non-Voting Common Stock described herein and the contribution of cash to HHHH by Parent, shall qualify as a transfer described in Section 351 of the Internal Revenue Code of 1986, as amended.

NOW, THEREFORE, in order to implement the foregoing and in consideration of the mutual agreements contained herein, the parties agree as follows:

I. Contribution and Exchange of Securities .

1.1 Rollover Share Exchange . Subject to the terms and conditions of this Agreement, effective immediately prior to the Closing, each Holder shall contribute to HHHH each Rollover Share of such Holder, and HHHH shall issue and deliver to such Holder in exchange for each such Rollover Share of such Holder, the number of validly issued, fully paid and nonassessable shares of HHHH Non-Voting Common Stock equal to the Per Rollover Share Number. The Holders agree to deliver to HHHH (or its designee), on or before December 5, 2014, a schedule setting forth the Rollover Amount for each Holder (as defined below).

1.2 Definitions .

1.2.1 " HHHH Stock " means, collectively, the shares of HHHH Non-Voting Common Stock and the voting shares of common stock, par value $.01 per share, of HHHH.

1.2.2 " Per Share Closing Purchase Price " means (a) the Purchase Price payable at the Closing determined pursuant to Section 2.2 of the Purchase Agreement, *divided by* (b) the aggregate number of shares of Common Stock outstanding as of immediately prior to the Closing, on a fully diluted (and as-converted) basis, including the Rollover Shares; provided , that , for the avoidance of doubt, in calculating the aggregate number of shares of Common Stock outstanding as of immediately prior to the Closing, all Options that are "in the money" shall be treated as exercised.

1.2.3 " Per Rollover Share Number " means (a) the Per Share Closing Purchase Price, *divided by* (b) the per share price paid by Parent for each share of voting common stock, par value $.01 per share, of HHHH held by Parent at the Closing.

1.2.4 " Rollover Amount " means, for a given Holder, the amount identified in the Purchase Agreement as the "Rollover Amount" for such Holder and set forth in the Rollover Schedule to be delivered pursuant to Section 2.1.1 of the Purchase Agreement.

1.2.5 " Rollover Shares " means, for a given Holder, the number of shares of EHHI Common Stock equal to (a) the Rollover Amount for such Holder, *divided by* (b) the Per Share Closing Purchase Price.

1.3 Stockholders' Agreement . Concurrently with the Rollover Closing (as defined below), each of Parent, HHHH and the Holders shall become a party to, and the shares of HHHH Stock (including the HHHH Non-Voting Common Stock issued pursuant hereto) shall be subject to the terms of, a Stockholders' Agreement, to be dated as of the date of the Closing, among Parent, HHHH and the Holders in a form to be reasonably agreed upon by the Management Investors (as defined in Annex B attached hereto) and Parent (the " Stockholders' Agreement "), substantially on the terms set forth in Annex B attached hereto (the " Term Sheet ").

1.4 Closing . Subject to the satisfaction of the conditions set forth below, the closing of the transactions contemplated hereby (the " Rollover Closing ") shall take place in the same place as the Closing and shall be effective immediately prior to consummation of the Securities Purchase.

1.5 Deliveries of HHHH . At the Rollover Closing:

1.5.1 HHHH shall issue and deliver to each Holder duly executed stock certificates representing the shares of HHHH Non-Voting Common Stock issued to such Holder pursuant to Section 1.1.

1.5.2 HHHH shall deliver a copy of the Stockholders' Agreement duly executed by HHHH and Parent.

1.6 Deliveries of each Holder . At the Rollover Closing, each Holder shall deliver to HHHH the following:

1.6.1 certificates for Rollover Shares for such Holder, duly endorsed for transfer or accompanied by a duly executed stock power or other appropriate instrument of assignment and transfer;

1.6.2 a copy of the Stockholders' Agreement duly executed by such Holder.

II. Conditions to Rollover Closing .

2.1 Closing of the Securities Purchase . The obligation of each of Parent, HHHH, and Holder to consummate the Rollover Closing is subject to the satisfaction of the condition that all conditions to the consummation of the Securities Purchase shall have been satisfied or waived by the parties thereto in accordance with the Purchase Agreement, other than the condition set forth in Sections 6.9 and 7.3 of the Purchase Agreement with respect to the contribution, exchange and issuance of the Rollover Shares.

III. Representations and Warranties of Parent and HHHH . Each of Parent and HHHH, solely as to itself, represents and warrants to the Holders as of the date hereof and as of the Rollover Closing (except as otherwise provided) as follows:

3.1 Authority . Each of Parent and HHHH is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of Parent and HHHH has the requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. HHHH was formed solely for the purpose of engaging in the transactions contemplated by the Purchase Agreement, has not engaged in any business activities or conducted any operations other than in connection with the transactions contemplated thereby and has no liabilities of any kind or nature whatsoever except those arising under this Agreement, the Purchase Agreement and the other agreements referenced in the Purchase Agreement or as contemplated by the Term Sheet.

3.2 Execution and Delivery; Enforceability . Each of Parent and HHHH has taken all action necessary to authorize the execution and delivery by Parent or HHHH, as applicable, of this Agreement and each agreement, instrument, or document required to be executed and delivered by Parent or HHHH, as applicable, to the Holders pursuant to this Agreement, the performance of Parent or HHHH, as applicable, of its obligations hereunder and thereunder, and the consummation of the

transactions contemplated hereby and thereby. This Agreement and each other agreement, instrument, or document required to be executed and delivered by Parent or HHHH, as applicable, to the Holders pursuant hereto has been duly executed and delivered by Parent or HHHH, as applicable, and, assuming due execution and delivery by the other parties hereto or thereto, as applicable, constitutes a valid and binding obligation of Parent or HHHH, as applicable, enforceable against Parent or HHHH, as applicable, in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium, and similar laws affecting creditors' rights generally and to general principles of equity.

3.3 Capitalization . Following the consummation of the transactions contemplated by this Agreement and the Purchase Agreement, the capitalization of HHHH shall be as set forth on Annex C hereto. Subject to the consummation of the transactions contemplated hereby, the shares of HHHH Non-Voting Common Stock issued to the Holders will be duly and validly issued and fully paid and non-assessable.

3.4 Organizational Documents . At the Rollover Closing, the certificate of incorporation and by-laws of HHHH shall be substantially in the form attached hereto as Annex D .

3.5 Absence of Conflict . Neither the execution, delivery, and performance of this Agreement by Parent and HHHH nor the consummation of the transactions contemplated hereby violate or conflict with, constitute a default under or require any consent, waiver or approval under (i) Parent's or HHHH's certificate of incorporation or by-laws, (ii) any judgment, order or decree or statute, law, ordinance, rule or regulation of any governmental entity applicable to Parent or HHHH, or (iii) any material agreement to which Parent or HHHH is a party or by which it or its property is bound.

IV. Representations and Warranties of Each Holder . Each Holder, solely as to itself, represents and warrants to Parent and HHHH as of the date hereof and as of the Rollover Closing (except as otherwise provided) as follows:

4.1 Authority . In the case of a Holder that is not an individual, such Holder is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Such Holder has the corporate or other power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated by this Agreement. In the case of a Holder who is a natural person, such Holder has the capacity to execute and deliver this Agreement, to perform his obligations hereunder, and to consummate the transactions.

4.2 Execution and Delivery; Enforceability . Such Holder has taken all action necessary to authorize the execution and delivery by such Holder of this Agreement and each agreement, instrument, or document required to be executed and delivered by such Holder to Parent or HHHH pursuant to this Agreement and the performance by such Holder of its obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby. This Agreement and each other agreement, instrument, or document required to be executed and delivered by such Holder to Parent or HHHH pursuant to this Agreement have been duly executed and delivered by such Holder and, assuming due execution and delivery by the other parties hereto or thereto, as applicable, constitutes a valid and binding obligation of such Holder, enforceable against such Holder, in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium, and similar laws affecting creditors' rights generally and to general principles of equity.

4.3 Ownership of Securities . Holder is the beneficial and record owner, and has good and marketable title to, all of such Holder's Rollover Shares, free and clear of all liens, encumbrances, mortgages, pledges, security interests, matrimonial or community interests or tenancy by the entirety claims.

4.4 Absence of Conflict . Neither the execution, delivery, and performance of this Agreement by Holder nor the consummation of the transactions contemplated hereby violate or conflict with, constitute a default under or require any consent, waiver or approval under (i) in the case of any Holder which is not an individual, such Holder's organizational documents, (ii) any judgment, order or decree or statute, law, ordinance, rule or regulation of any governmental entity applicable to such Holder, or (iii) any material agreement to which such Holder is a party or by which it or its property is bound.

4.5 Investment Representations and Warranties .

4.5.1 Holder is acquiring the shares of HHHH Non-Voting Common Stock pursuant to this Agreement for such Holder's own account, for investment, and not with a view to the distribution thereof, nor with any present intention of distributing the same.

4.5.2 Holder understands that the shares of HHHH Non-Voting Common Stock acquired pursuant to this Agreement have not been registered under the Securities Act of 1933, as amended (the " Securities Act "), or the securities laws

of any state; and that such shares of HHHH Non-Voting Common Stock are being issued in a transaction exempt from the registration requirements of the Securities Act and the rules and regulations thereunder; and that such shares of HHHH Non-Voting Common Stock must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from registration thereunder. The shares of HHHH Non-Voting Common Stock have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission, or any other regulatory authority.

4.5.3 Holder has such knowledge and experience in business and financial matters as to enable such Holder to understand and evaluate the risks of such investment and form an investment decision with respect thereto. Except to the extent set forth in this Agreement, Holder has relied only on its own tax advisor and legal counsel, and not on Parent, HHHH, or any of their respective advisors, with respect to the federal, state, local, foreign and other tax consequences arising from such Holder's acquisition, ownership, and disposition of shares of HHHH Non-Voting Common Stock.

4.5.4 Holder (a) has been advised and understands that no public market now exists for shares of HHHH Non-Voting Common Stock and that a public market may never exist for shares of HHHH Non-Voting Common Stock, (b) has no need for liquidity in its investment in HHHH, (c) is able to bear the economic risk of such investment for an indefinite period and to afford a complete loss thereof, and (d) understands all of the risks associated with the acquisition of shares of HHHH Non-Voting Common Stock and may sustain a loss of such Holder's entire investment.

4.5.5 Holder agrees that the shares of HHHH Non-Voting Common Stock will be subject to the terms and conditions of the Stockholders' Agreement. The certificate representing the shares of HHHH Non-Voting Common Stock issued pursuant to this Agreement shall bear a restrictive legend. Except as may otherwise be provided in the Stockholders' Agreement, Holder acknowledges and understands that the shares of HHHH Non-Voting Common Stock issued to such Holder pursuant to this Agreement shall have no voting rights on any matter.

V. Restrictions on Transfer .

5.1 Transfers Restricted . No Holder may sell, assign, pledge, mortgage, hypothecate, grant a security interest in, exchange, or otherwise transfer or dispose of such Holder's shares of HHHH Non-Voting Common Stock, except pursuant to the terms of the Stockholders' Agreement, in accordance with the terms of this Agreement and in accordance with applicable law.

VI. Certain Tax Matters .

6.1 The parties agree that it is intended that the contribution of Rollover Shares by the Holders hereunder in exchange for HHHH Non-Voting Common Stock be treated as a transaction governed by Section 351(a) of the Code. The parties will act and file Tax Returns in accordance with such treatment and will not take any inconsistent position in the filing of any Tax return or, unless consented to by HCHB Consulting, Inc. (the " Majority Holder "), in the course of any Tax Proceeding.

6.2 To establish for the benefit of each Holder that the contribution by the Holder of Rollover Shares to HHHH is properly treated as a transaction governed by Section 351 of the Code, HHHH hereby represents and warrants to each Holder that each of the statements set forth in Sections 6.2.1 through 6.2.4 is true and correct as of the date hereof and will be true and correct as of the Closing Date.

6.2.1 HHHH and each of its Affiliates has no current plan or intention to, and is not party to a binding agreement or obligation or subject to any requirement to issue, grant, distribute, sell, redeem, acquire, assign, transfer, recapitalize or amend (however accomplished) the terms of any shares of stock (or other equity rights, including options of HHHH), including any transaction treated as a sale or transfer of HHHH equity for income tax purposes. HHHH and its Affiliates will not take, cause or permit to be taken any of the foregoing actions for a period of one (1) year following the Closing to the extent such actions would cause Parent and the Holders to no longer be in control of HHHH within the meaning of Section 368(c) of the Code. Notwithstanding the foregoing, the representations and warranties shall not be violated by the issuance of stock appreciation rights as set forth on Annex B .

6.2.2 HHHH and each of its Affiliates has no current plan or intention to, and is not party to a binding agreement or obligation or subject to any requirement to cancel, redeem, recapitalize or eliminate the Rollover Shares. HHHH covenants and agrees that the Rollover Shares will remain issued and outstanding for at least one (1) year following the Closing. HHHH will cause its Affiliates to comply with the foregoing covenant.

6.2.3 HHHH and each of its Affiliates has no current plan or intention to, and is not party to any binding agreement or obligation or subject to any requirement to, cause or permit HHHH, Buyer or EHHI to be liquidated, merged, converted to a limited liability company (or other non-corporate entity), or to enter into any other transaction pursuant to which HHHH, Buyer or EHHI ceases to exist as a separate entity taxable as a corporation for applicable income tax purposes. HHHH and each of its Affiliates will not take, cause or permit any of the foregoing actions for a period of one (1) year following the Closing.

6.2.4 HHHH and each of its Affiliates has no current plan or intention, and is not party to any binding agreement or obligation or subject to any requirement to, and will not take, cause or permit any other action that, in each instance, it knows or reasonably should know could adversely affect the treatment of the contribution of Rollover Shares by the Holders hereunder in exchange for HHHH Non-Voting Common Stock as a transaction governed by Section 351(a) of the Code.

6.3 Parent hereby represents and warrants that it has no current plan or intention to, and is not party to any binding agreement or obligation or subject to any requirement to sell, assign or otherwise dispose of any shares of stock of HHHH, including HHHH Voting Common Stock. Parent covenants and agrees that it will not take, cause, or permit any of the actions described in the preceding sentence for a period of one (1) year following the Closing to the extent such actions would cause Parent and the Holders to no longer be in control of HHHH within the meaning of Section 368(c) of the Code.

6.4 Each Holder, solely for the benefit of the other Holders, hereby represents and warrants that it has no current plan or intention to, and is not party to any binding agreement or obligation or subject to any requirement to sell, assign or otherwise dispose of the HHHH Non-Voting Common Stock contemplated in this agreement to be issued to such Holder, other than as described in the Term Sheet. Each Holder covenants and agrees, solely for the benefit of the other Holders, that it will not take, cause, or permit any of the actions described in the preceding sentence for a period of one (1) year following the Closing to the extent such actions would cause Parent and the Holders to no longer be in control of HHHH within the meaning of Section 368(c) of the Code.

VII. Miscellaneous .

7.1 Entire Agreement . This Agreement, the Purchase Agreement, and the Stockholders' Agreement, together with the other agreements, instruments, and documents contemplated hereby or thereby, contain the entire understanding of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings among the parties hereto with respect to such subject matter.

7.2 Notices . All notices, claims, certificates, requests, demands and other communications hereunder shall be in writing (including any facsimile or electronic transmission) and shall be deemed to have been duly given if personally delivered or if sent by nationally-recognized overnight courier, by telecopy, by facsimile or electronic transmission, or by registered or certified mail, return receipt requested and postage prepaid, addressed as follows:

if to Parent:

HealthSouth Corporation
3660 Grandview Parkway, Suite 200
Birmingham, Alabama 35243
Attention: Douglas E. Coltharp
John P. Whittington
Facsimile Number: (205) 262-3948

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
920 North King Street
Wilmington, Delaware 19801
Attention: Robert B. Pincus, Esq.
Telecopy Number: (302) 434-3090

if to HHHH:

HealthSouth Home Health Holdings, Inc.
c/o HealthSouth Corporation
3660 Grandview Parkway, Suite 200
Birmingham, Alabama 35243
Attention: Douglas E. Coltharp
John P. Whittington
Facsimile Number: (205) 262-3948

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
920 North King Street
Wilmington, Delaware 19801
Attention: Robert B. Pincus, Esq.
Telecopy Number: (302) 434-3090

if to a Holder, at the address set forth under such Holder's name on Annex A or to such other address as the party to whom notice is to be given may have furnished to the other parties in writing in accordance herewith.

Any such notice or communication shall be deemed to have been received (a) in the case of personal delivery, on the date of such delivery, (b) in the case of nationally-recognized overnight courier, on the next business day after the date when sent, (c) in the case of telecopy, facsimile, or other electronic transmission, when received, and (d) in the case of mailing, on the third business day following that on which the piece of mail containing such communication is posted.

7.3 Amendments . The terms and provisions of this Agreement may be modified or amended only pursuant to an instrument executed by each of the parties hereto.

7.4 Specific Performance . Each of the parties hereto acknowledges and agrees that the other parties would be damaged immediately, extensively, and irreparably and no adequate remedy at law would exist in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached or violated. Accordingly, in addition to, and not in limitation of, any other remedy available to any party, the parties agree that, without posting bond or similar undertaking, each of the other parties shall be entitled to an injunction or injunctions to prevent breaches or violations of the provisions of this Agreement and to the remedy of specific performance of this Agreement and the terms and provisions hereof. Subject to Section 7.7, such remedies, and any and all other remedies provided for in this Agreement, will, however, be cumulative in nature and not exclusive and will be in addition to any other remedies to which such party may be entitled. Each party further agrees that, in the event of any action for injunctive relief or for specific performance in respect of any breach or violation, or threatened breach or violation, of this Agreement, it shall not assert the defense that a remedy at law would be adequate or that specific performance or injunctive relief in respect of such breach or violation should not be available on any other grounds.

7.5 Counterparts . This Agreement may be executed in any number of counterparts (including by facsimile or in pdf), and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

7.6 Headings . The section and paragraph headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

7.7 Governing Law . This Agreement, and all claims arising in whole or in part out of, related to, based upon, or in connection herewith or the subject matter hereof or the transactions contemplated hereby will be governed by, construed and enforced in accordance with the laws of the State of Delaware, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction.

7.8 Consent to Jurisdiction . Each party to this Agreement, by its execution hereof, hereby irrevocably (a) submits to the exclusive jurisdiction of the Delaware Court of Chancery (or if, but only if, the Delaware Court of Chancery declines to accept jurisdiction, the Superior Court of the State of Delaware or the United States District Court for the District of Delaware) for the purpose of any and all Actions arising in whole or in part out of, related to, based upon or in connection with

this Agreement or the subject matter hereof or the transactions contemplated hereby, (b) waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such action brought in one of the above-named courts should be dismissed on grounds of improper venue or *forum non conveniens* , should be transferred to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or any claims arising in whole or in part out of, related to, based upon, or in connection herewith or the subject matter hereof may not be enforced in or by such court, (c) agrees not to commence any such Action other than before one of the above-named courts nor to make any motion or take any other action seeking or intending to cause the transfer or removal of any such action to any court other than one of the above-named courts (subject in each case to clause (a) of this sentence) whether on the grounds of inconvenient forum or otherwise, (d) consents to service of process in any such Action in any manner permitted by the laws of the State of Delaware, (e) agrees that service of process made in accordance with clause (d) or made pursuant to Section 7.2 of this Agreement will constitute good and valid service of process in any such Action, and (f) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such Action any claim that service of process made in accordance with clause (d) or clause (e) does not constitute good and valid service of process. Notwithstanding the immediately preceding sentence, a party may commence an Action in any other court to enforce an order or judgment issued by one of the courts described in the immediately preceding sentence.

7.9 Waiver of Jury Trial . TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH OF THE PARTIES HERETO HEREBY WAIVES, AND AGREES TO CAUSE EACH OF ITS SUBSIDIARIES TO WAIVE, AND COVENANTS THAT NEITHER IT NOR ANY OF ITS SUBSIDIARIES SHALL ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ACTION DESCRIBED IN SECTION 7.8 OF THIS AGREEMENT. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 7.9 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH SUCH PARTY TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

7.10 Interpretation . Parent, HHHH, and each Holder acknowledge that this Agreement has been freely negotiated and entered into by each party hereto and that no court should in any manner construe any ambiguity against the draftsman solely by virtue of its role as draftsman.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Rollover Stock Agreement as of the date first written above.

**PARENT :**

**HealthSouth Corporation**

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

**HHHH :**

**HealthSouth Home Health Holdings, Inc.**

By: /s/ Douglas E. Coltharp
Name: Douglas E. Coltharp
Title: Vice President

**HOLDERS :**

/s/ April Anthony
April Anthony

HCHB CONSULTING, INC.

By: /s/ April Anthony
Name: April Anthony
Title: President

AGM CHILDREN'S HOMECARE, INC.

By: /s/ April Anthony
Name: April Anthony
Title: President

/s/ Judee Barrett
Judee Barrett

/s/ G. Robert Thompson
G. Robert Thompson

/s/ Tracey Kruse
Tracey Kruse

/s/ Jennifer L. Polak
Jennifer L. Polak

/s/ Jesse Luke James
Jesse Luke James

/s/ Andrew Ingram
Andrew Ingram

/s/ Robert D. Peoples
Robert D. Peoples

**LIST OF ANNEXES**

**[** The Annexes A, C and D have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted annex will be furnished supplementally to the Securities and Exchange Commission upon request. Further explanation of the contents of the omitted Annexes can be found in the Agreement. **]**

**Annex A - Holders**

**Annex B - Term Sheet for Stockholders' Agreement**

**Annex C - Capitalization of HHHH**

**Annex D - Form of Organizational Documents of HHHH**

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**Annex B**

**HealthSouth Corporation**
**Proposed Investment in Project Wildcat**

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**Terms of Equity Rollover, Stock Appreciation Rights and Restricted Stock**

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*In connection with the proposed acquisition of EHHI Holdings, Inc. (" Wildcat ") (the " Proposed Acquisition ") by HealthSouth Corporation (" HealthSouth "), set forth below is a summary (this " Summary ") of the principal terms and conditions upon which certain stockholders of Wildcat will "roll over" a portion of their respective investments in Wildcat into non-voting shares of common stock of a direct wholly-owned subsidiary of HealthSouth (" HHHH "), a wholly-owned subsidiary of which ("Buyer") will serve as the acquisition vehicle in the Proposed Acquisition, and such stockholders and other members of the management of Wildcat designated by April Anthony will receive grants of stock appreciation rights of HHHH and restricted stock of HealthSouth.*

*This Summary does not constitute either an offer to sell or an offer to purchase any securities.*

Rollover Shares of Common Stock of HHHH

**Investors:**

Current management stockholders of Wildcat (along with their affiliates) identified on Exhibit A hereto (the " Management Investors ") will be offered the opportunity to exchange equity securities of Wildcat for shares of non-voting common stock of HHHH (" HHHH Non-Voting Stock "), in each case, as determined pursuant to the to the Stock Purchase Agreement relating to the Proposed Acquisition and the Rollover Stock Agreement to which this Term Sheet is attached. Such contribution and related transactions will be structured, to the reasonable satisfaction of the Management Investors, as to be properly treated as a transaction governed by Section 351(a) of the Code. The definitive documents will contain customary representations and covenants relating to this treatment.

It is expected that, based on the purchase price in the Proposed Acquisition, an aggregate of approximately $[    ] million of equity securities of Wildcat would be exchanged for HHHH Non-Voting Stock, representing approximately percent (    %) of the then outstanding shares of common stock of HHHH.

HealthSouth will initially own all of the shares of voting common stock of HHHH (the " HHHH Voting Stock ," and, together with the HHHH Non-Voting Stock, the " HHHH Stock ") (approximately _____ percent (    %) of the then outstanding shares of HHHH Stock).

**Transfer Restrictions:**

No Management Investor would be permitted to transfer any of its HHHH Non-Voting Stock without the prior approval of HealthSouth, which may withhold such approval in its sole discretion, except (i) in connection with the exercise of tag-along or drag-along rights described below, (ii) to Permitted Transferees (to be defined), or (iii) pursuant to the put option or call options described below.

**Put Option of Management Investors:**

At any time after December 31, 2017, each Management Investor will have the right (but not the obligation) to have shares of HHHH Non-Voting Stock owned by such Management Investor (and his or

her Permitted Transferees) purchased by HealthSouth or its designee for a cash purchase price per share equal to the Fair Market Value (as defined below) of the HHHH Stock as of the last day of the most recently completed calendar quarter.

Up to one-third of each Management Investor's shares of HHHH Non-Voting Stock may be sold pursuant to this section prior to December 31, 2018; up to two-thirds of each Management Investor's shares of HHHH Non-Voting Stock may be sold pursuant to this section prior to December 31, 2019; and up to all of each Management Investor's shares of HHHH Non-Voting Stock may be sold pursuant to this section thereafter.

**Call Option of HealthSouth:**

At any time after December 31, 2019, HealthSouth or its designee will have the right (but not the obligation) to purchase all (and not less than all) of the shares of HHHH Non-Voting Stock owned by the Management Investors and their Permitted Transferees (or any of them) for a cash purchase price per share equal to the Fair Market Value of the HHHH Stock as of the last day of the most recently completed calendar quarter.

**Call Option of HealthSouth upon Termination of Employment of a Management Investor:**

Within one hundred and twenty (120) days following the termination of employment of any Management Investor, other than termination of employment without Cause, for Good Reason or upon the death or disability of such Management Investor, HealthSouth or its designee will have the right (but not the obligation) to purchase all but not less than all of the shares of HHHH Non-Voting Stock owned by such Management Investor (and his or her Permitted Transferees) for a cash purchase price per share equal to the Fair Market Value of the HHHH Stock as of the date of such termination of employment. The call option described above will expire and no longer be applicable with respect to the shares of HHHH Non-Voting Stock held by any Management Investor whose employment is terminated after December 31, 2017.

**Tag-Along Rights:**

If at any time HealthSouth proposes to, directly or indirectly, transfer sell or otherwise dispose, in one transaction or a series of related transactions, an aggregate of more than ten percent (10 %) any of the HHHH Stock held by it to persons other than Permitted Transferees, then the Management Investors will be provided the opportunity to transfer the same percentage of their (and their Permitted Transferees') HHHH Non-Voting Stock as HealthSouth, on the same terms and conditions as HealthSouth transfers its HHHH Voting Stock; provided that no Management Investor (nor any of its Permitted Transferees) will be required to be liable for more than its pro rata share of any indemnification or similar obligation (other than with respect to ownership of its HHHH Shares) and, in any event will not be required to be liable for any amounts in excess of the net proceeds received.

**Drag-Along Rights:**

If at any time HealthSouth proposes to directly or indirectly, transfer, sell or otherwise dispose, in one transaction or a series of related transactions, fifty percent (50%) of its HHHH Stock to one or more unaffiliated persons, then HealthSouth may (i) require each Management Investor (and his or her Permitted Transferees) to sell, on the same terms and conditions as HealthSouth, the same percentage of HHHH Non-Voting Stock held by such Management Investor as the percentage of the HHHH Stock that HealthSouth sells or transfers, and (ii) require each Management Investor not to exercise any dissenter's rights with respect to such transaction; provided that no Management Investor (nor any of its transferees)

will be required to be liable for more than its pro rata share of any indemnification or similar obligation (other than with respect to ownership of its HHHH Shares) and, in any event will not be required to be liable for any amounts in excess of the net proceeds received.

**Affiliate Transactions:**

HHHH will not enter into any transaction with any affiliate (excluding any tag along or drag along rights or exercise of the put option or call options, in each case described above, and excluding the issuance of equity securities of HHHH subject to preemptive rights or in an Excluded Transaction, in each case described below) unless such transaction is on arm's length terms that are no less favorable to HHHH than would be available from an unaffiliated third party (which determination shall be made in good faith by the CEO of HHHH ); provided, however, that such restriction shall not preclude HealthSouth from providing any service reasonably necessary to resolve any regulatory or compliance issue. For the avoidance of doubt, the restrictions in this covenant shall not apply to (x) the cash management policies and practices of Wildcat and HealthSouth or (y) to any tax-sharing agreement or other shared services agreement between Wildcat and HealthSouth.

**Preemptive Rights:**

In connection with any issuance by HHHH of any equity securities (or securities convertible into or exercisable for equity securities) in HHHH, other than issuances (i) to management or consultants as compensation for services, (ii) pursuant to any equity incentive plan of HHHH, or (iii) as consideration for an acquisition by HHHH or a subsidiary thereof of a business or assets of an unaffiliated third party (each of the events specified in clauses (i) through (iii) above, an " Excluded Transaction "), each Management Investor will have the right to purchase such equity securities (or rights to acquire equity securities) at the same price and on the same terms to be paid by the proposed purchasers, in an amount such that each stockholder will maintain its respective fully diluted percentage interests (directly or indirectly) in the total equity of HHHH.

After consulting with the CEO, each Management Investor may exercise all or any portion of his, her or its preemptive rights by tendering a personal note to HHHH in the applicable principal amount (the "Management Investor Note"), which note, at the election of such Management Investor may be nonrecourse and secured only by the shares of HHHH Stock acquired by such Management Investor in the subject issuance. The Management Investor Note will accrue interest at the same per annum interest rate as HealthSouth's then existing revolving credit facility and all accrued interest on and principal of the Management Investor Note shall become due and payable upon the consummation of any put or call option on such Management Investor's HHHH Stock. The Management Investor Note may be prepaid at any time without any prepayment premium or penalty. Any Management Investor who is an executive officer of HealthSouth shall not be permitted to exercise his or her preemptive rights through a Management Investor Note

**Information Rights:**

Management Investors will be provided annual and quarterly financial information with respect to HHHH and its subsidiaries.

**Sale of HealthSouth's Existing Home Healthcare Business:**

On or prior to June 30, 2015, HealthSouth may sell or contribute its existing home healthcare business to HHHH for an increase in the HealthSouth Note equal to a multiple to be agreed upon by the parties that

takes into consideration comparable acquisitions made by Wildcat during 2014 and the first half of 2015, without giving effect to any HealthSouth corporate overhead charges (and no additional consideration).

**Stockholders' Agreement:**

Management Investors will become parties to a Stockholders' Agreement with HealthSouth that includes substantially the terms set forth in this Summary (the " Stockholders' Agreement ").

**Fair Market Value:**

" Fair Market Value " of the HHHH Stock per share shall mean the result of (a)(i) the product of the EBITDA (as defined below) of HHHH for the twelve month period ending on the last day of the most recently completed calendar quarter multiplied by the Market Multiple (as defined below), *less* (ii) the outstanding amount of the HealthSouth Note as of the last day of such calendar quarter, *plus or minus* (iii) the amount of net debt of HHHH as of the last day of such calendar quarter (i.e., available cash, less any indebtedness of HHHH other than the HealthSouth Note), *divided by* (b) the total number of shares of HHHH Stock outstanding as of the date of the transaction on a fully diluted basis.

**EBITDA:**

EBITDA shall be calculated based on HHHH's combined net income for the twelve month period ending on the last day of the applicable calendar quarter (the "Relevant Period"), plus , without duplication and to the extent reflected as a charge in the statement of such net income for such Relevant Period:

1) State and federal income tax expense for the Relevant Period, plus ;

2) Depreciation and amortization for the Relevant Period, plus ;

3) Accrued interest expense on the HealthSouth Note and any other indebtedness of HHHH or its subsidiaries for the Relevant Period, plus ;

4) Accrued incentive equity compensation/SARs/expenses for the Relevant Period, plus ;

5) Gain/loss on disposal of any assets, plus ;

6) Any extraordinary charges or losses determined in accordance with generally accepted accounting principles.

EBITDA shall be based on results of HHHH under generally accepted accounting principles, consistently applied, without allocation of any HealthSouth corporate overhead or charges for corporate services, other than those approved pursuant to the "Affiliate Transaction" provision above.

**HealthSouth Note:**

On the Closing Date of the Proposed Acquisition, HHHH will borrow from HealthSouth, and HealthSouth will lend to HHHH, an aggregate principal amount of $[_______]. This indebtedness will be evidenced by a note issued by HHHH to HealthSouth (the " HealthSouth Note ") and will accrue interest at the same per annum interest rate as HealthSouth's then existing revolving credit facility and will be repaid from time to time with excess cash of HHHH. To the extent that HealthSouth provides funds for future acquisitions, capital expenditures, or other corporate purposes (including for losses relating to breaches of representations, warranties, or covenants in the Stock Purchase Agreement relating to the Proposed

Acquisition that are not covered by indemnification pursuant to such Stock Purchase Agreement or by insurance), such amounts will be added to the principal amount of the HealthSouth Note, and interest will accrue on such amounts from the date funds are provided.

**Market Multiple:**

- Market Multiple Definition : Median of the FV/LTM EBITDA multiples (adjusted for acquisitions) for the " Public Home Health Trading Comparable List " and the " Home Health Transaction Comparable List ."

- " Public Home Health Trading Comparable List ": Includes HealthSouth, Kindred, Amedisys, LHC Group and Almost Family. List can be revised due to new public home health companies or delisting from the public markets.

- " Home Health Transaction Comparable List ": Includes any home health transactions in the past twelve months on a rolling basis that meet the following criteria:

    1) Greater than 60% home health revenue

    2) Transaction size greater than $400 million

    3) Excludes any HealthSouth home health acquisitions

HHHH Stock Appreciation Rights

**SAR Pool Recipients:**

Stock Appreciation Rights (" SARs ") reflecting a number of shares aggregating six percent (6%) of the outstanding shares on a fully-diluted basis of HHHH Stock at the Closing Date of the Proposed Acquisition will be granted to Management Investors and certain other members of the management of Wildcat recommended by April Anthony at closing.

**Exercise Price:**

The same price per share of the HHHH Stock that are issued at the Closing Date of the Proposed Acquisition

**Vesting**

**Performance SARs** :

One half of the SARs (the " Performance SARs ") will be granted to Management Investors and will be subject to achievement of Wildcat 2017 projected EBITDA levels, as set forth below:

| % of Performance SARs meeting achievement | Actual 2017 EBITDA (in millions) |
| --- | --- |
| 0% | less than $107.325 |
| 95% | $107.325 |
| 100% | $112.973 |
| 105% | $118.622 and above |

and ratably between such actual EBITDA amounts

Fifty percent (50%) of the Performance SARs that meet the performance achievements above will vest if the recipient remains continuously employed by HHHH or its subsidiaries through (i) December 31, 2018 or (ii) the earlier consummation of a transaction (or series of related transactions) pursuant to which (A) HealthSouth directly or indirectly transfers, sells or otherwise disposes of more than fifty percent (50%) of the HHHH Stock owned, directly or indirectly, by HealthSouth to one or more unaffiliated person(s) or (B) one or more unaffiliated person(s) acquires all or substantially all of HHHH's assets determined on a consolidated basis, including through the purchase of the capital stock of one or more subsidiaries of HHHH (each, a " Change of Control ").

The remaining fifty percent (50%) of the Performance SARs that meet the performance achievements above will vest if the recipient remains continuously employed by HHHH or its subsidiaries through (i) December 31, 2019 or (ii) the earlier consummation of a Change of Control.

**Time Vesting SARs** : [1]

Fifty percent (50%) of the SARs (" Time Vesting SARs ") will vest if the recipient remains continuously employed by HHHH or its subsidiaries through (i) December 31, 2018 or (ii) the earlier consummation of a Change of Control.

The remaining fifty percent (50%) of the Time Vesting SARs will vest if the recipient remains continuously employed by HHHH or its subsidiaries through (i) December 31, 2019 or (ii) the earlier consummation of a Change of Control.

**Exercisability:**

Vested SARs may be exercised by the holder at any time and, upon exercise, the holder will receive a cash payment per SAR equal to Fair Market Value (as defined above) on the date of exercise less the exercise price. HealthSouth will loan to HHHH the necessary funds for any such payments.

**Expiration:**

Ten years from date of grant; provided that vested SARs will expire sixty (60) days (or, in the case of termination of employment due to death or disability, one (1) year) following termination of employment and unvested SARs expire upon termination of employment.

**Transfer Restrictions**

SARs and any interest therein may not be sold, pledged, assigned or transferred in any manner; provided that unexercised vested SARs, held by the estate of any participant whose employment was terminated upon his or her death, may be exercised by such estate consistent with the provisions under "Expiration" above.

[1] As discussed with April Anthony, two Wildcat executives' SAR agreements will provide for slightly different vesting terms.

Shares of Restricted Stock of HealthSouth

**Recipients:**

Management Investors and certain other members of the management of Wildcat recommended by April Anthony and determined by the Compensation Committee of the HealthSouth Board of Directors will receive each year through 2019 (no later than March 31st of each such year, commencing March 31, 2015), aggregate grants of not less than $2,500,000 of restricted stock of HealthSouth, issued pursuant to HealthSouth's Amended and Restated 2008 Equity Incentive Plan or such other plan approved by HealthSouth's stockholders or such other cash settled award of similar value ("Restricted Stock"), valued as of the date of grant.

**Ownership Rights:**

Recipients of awards of Restricted Stock are entitled to all of the rights of a stockholder of HealthSouth with respect to such Restricted Stock (including voting and other ownership rights) throughout the restricted period; *provided*, *however*, that dividends will accrue during the restricted period of such grants and be paid in full upon vesting.

**Transfer Restrictions:**

Restricted Stock and any interest therein, may not be sold, pledged, assigned, or transferred in any manner, prior to the lapse of restrictions, except as permitted pursuant to the Amended and Restated 2008 Equity Incentive Plan.

**Performance Objectives; Continued Employment:**

The shares of Restricted Stock will be subject to achievement of the target EBITDA for the year of grant, in each case as such target EBITDA is determined by the Compensation Committee of HealthSouth's Board of Directors after consultation with the CEO of Wildcat, as set forth below:

| % of Restricted Stock grants meeting achievement | % of Applicable Target EBITDA for year of grant |
|---|---|
| 0% | less than 95% |
| 60% | 95% |
| 80% | 100% |
| 100% | 105% and above |

and ratably in between such percentages of applicable Target EBITDA

Fifty (50%) percent of the Restricted Stock that meet the performance achievement will vest at the end of the second year following grant or, if earlier, upon the consummation of a Change of Control, and the balance of such Restricted Stock that meet the performance achievement will vest at the end of the third year following grant or, if earlier, upon the consummation of a Change of Control. Vested shares of HealthSouth common stock will be freely transferable by the recipients.

EXHIBIT A

MANAGEMENT INVESTORS

April Anthony
HCHB Consulting, Inc.
AGM Children's Homecare, Inc.
G. Robert Thompson
Tracey Kruse
Jennifer L. Polak
Robert D. Peoples
Jesse Luke James
Andrew Ingram
Judee Barrett

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**Exhibit 10.19**

HOMECARE HOMEBASE, L.L.C.
RESTATED CLIENT SERVICE AND LICENSE AGREEMENT

This Restated Client Service and License Agreement (the "Agreement") is made and entered into this 31st day of December, 2014, by and between Homecare Homebase, LLC, a Delaware limited liability company ("HCHB") and EHHI Holdings, Inc., a Delaware corporation, including all of its wholly owned subsidiaries ("Client").

WHEREAS, HCHB has developed an inclusive homecare management software product that includes multiple modules for collecting, storing, retrieving and disseminating home care patient health and health related information by and on behalf of home health care agencies, point of care staff, physicians, patients and patient family members via hand held mobile computing devices and desktop computers linked with an internet website hosted by HCHB; and

WHEREAS, Client desires to utilize the HCHB System, including all software products developed by HCHB in connection therewith, for which Client shall receive training, documentation, and technical support, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, HCHB and Client agree as follows:

1. License . HCHB hereby grants to Client a non exclusive, non transferable (except pursuant to Section 26) right and license to use the HCHB software products identified on Schedule A (the " Licensed Software ") (i) during the term, on the internet website hosted by HCHB (the " HCHB Website ") (the Licensed Software and HCHB Website collectively, the " HCHB System ") or on other websites if permitted by Section 10.4 (Cancellation of Hosting and Maintenance Services), (ii) or after the term, on a self-host by Client or a third party hosted application service provider to Client. The term "Licensed Users" shall refer to Client and all of Client's staff and in-home service providers. The term "Authorized Users" shall refer to Licensed Users as well as the treating physicians and family members of Client's patients. Client acknowledges that the Licensed Software resides solely on the HCHB Website (or on other websites if permitted by Section 10.4) and may be accessed by Authorized Users utilizing computer hardware and mobile computing devices purchased by Client (or the Authorized Users) from HCHB or other third party vendors. Client agrees that its use of the Licensed Software shall be limited to the Authorized Users, and shall be subject to all of the limitations and restrictions set forth herein and on Schedule "A" hereto, including all limitations imposed on HCHB by its third party vendors (provided that Client is made aware of those limitations in advance and the limitations do not prevent Client's use of the Software as generally reflected in HCHB's Manuals). Further, except as otherwise set forth herein (including pursuant to Section 26), Client agrees that it may not sell, sublicense, lease or otherwise transfer all or any portion of its rights under this Agreement to any third party, including the performance by Client of data processing or time sharing services utilizing the HCHB System or the Licensed Software, absent the prior written consent of HCHB. Client acknowledges and agrees to be responsible for the compliance with the terms of this Agreement (including the confidentiality provisions of Section 5 below) by all Authorized Users designated by Client hereunder.

1.1. Notwithstanding the foregoing, the licenses granted hereunder are fully paid, perpetual, irrevocable licenses for Client and its Affiliates to use the HCHB System, including all application versions

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of the Licensed Software throughout the United States and Canada in connection with their business operations, but not in connection with the operation of a service bureau or processing center for unaffiliated third parties. As used herein, the term “Affiliates” shall mean those entities that are, from time to time, controlling, controlled by, or under common control with Client.

1.2. [Intentionally Omitted.]

2. Term . This Agreement became effective (the “Effective Date”) upon December 1, 2004 and shall continue thereafter until terminated in accordance with Section 10 below. Each anniversary thereof shall be referred to herein as a “Contract Year”. The term “Year One” shall mean the twelve month period beginning with the Effective Date.

3. Training and Implementation .

3.1. Pre-Implementation Planning . Promptly following the Effective Date, representatives of the parties shall meet to conduct a pre-implementation planning meeting, whereby the parties shall designate the respective responsibilities of the parties for implementing the HCHB System, including the designation of required computer hardware and related hosting accessories and the schedule for conducting the training of Client and all initial Licensed Users initially designated by Client. Client will bear [****] associated with such activities [****]. Each party will bear its own travel expenses.

3.2. Initial Training; Manuals . HCHB agrees to provide Client and all Licensed Users with training and initial consultation on the implementation and use of the HCHB System, HCHB Website and Licensed Software. Such training shall be conducted by HCHB professionals at HCHB’s training facility in Dallas, Texas, or at Client’s facility, at Client’s election. Client shall be solely responsible for all travel and related expenses incurred by its trainees. Client acknowledges that it will be solely responsible for the training of any person subsequently designated by Client as an Authorized User who does not otherwise participate in the HCHB training program. Additionally, HCHB shall provide Client with a single copy and an electronic copy of the HCHB System User Manuals (the “Manuals”) that detail the features and functionalities of the HCHB System, HCHB Website and Licensed Software. Client may make additional copies of the Manuals (in physical or electronic form) as reasonably necessary for its use of the HCHB System pursuant to this Agreement, and HCHB will provide additional copies of the Manuals to Client at Client’s request (for which Client will reimburse HCHB). The ownership, use and dissemination of the Manuals is otherwise subject to the terms of Section 5 below.

3.3. Designated Contacts . Client shall designate not more than two (2) persons within its organization who must complete the training procedures specified in Section 3.2 above in each component of the HCHB System and Licensed Software and be experienced in the use of Client’s hardware and the mobile computing devices used to access the HCHB Website. Such persons shall serve as Client’s “Designated Contacts.” Client shall advise HCHB in writing prior to the Effective Date of the selection of the initial Designated Contacts and notify and provide HCHB with timely notice of any change of the Designated Contacts. The Designated Contacts will be primarily responsible for assisting Authorized Users with technical aspects of the HCHB System and Licensed Software, and for responding in the first instance and attempting to resolve questions and problems related to the operation and use of the HCHB System and Licensed Software by Authorized Users. Absent emergency circumstances, only Designated Contacts may request telephone support and error corrections from HCHB and Client acknowledges that HCHB will direct all of its communications concerning same to Client’s Designated Contacts.

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4. Client Hardware Requirements . Client acknowledges that the use of the HCHB System and Licensed Software requires that Client maintain, at its sole expense, the following equipment meeting, at the minimum, the specifications established by HCHB in the Manuals: (i) personal computers for use of the Licensed Software on HCHB Website, (ii) mobile computing devices approved by HCHB to ensure compatibility with the Licensed Software for use by Licensed Users, purchased from HCHB or third party vendors, and (iii) an internal telephone network, including telephone line connections or the equivalent, and high speed Internet access services (via DSL, cable or T1 connectivity). HCHB has previously provided to Client a document containing these specifications. Client will be solely responsible for training its Authorized Users in the use of its computer hardware and mobile computing equipment used to access the Licensed Software and the HCHB Website.

5. Ownership of Intellectual Property and Confidential Use .

5.1. Client acknowledges that the HCHB System and Licensed Software are proprietary to HCHB and that Client acquires no rights of ownership in the HCHB System or Licensed Software, except the right to use the HCHB System and Licensed Software in accordance with this Agreement. Client further acknowledges that all intellectual property rights in the HCHB System and Licensed Software shall be and remain vested in HCHB (or those third parties with whom HCHB maintains license agreements providing for integrating software utilized in the Licensed Software). Client acknowledges and agrees that this Agreement shall be Client's sole source of rights in and to the HCHB System, the Licensed Software, and the HCHB Website, and any other intellectual property of HCHB, and Client shall obtain no such rights merely by virtue of its employment of any current or former employee of HCHB.

5.2 All Manuals, clinical information such as clinical pathways and physical assessment tools, technical information and documentation, data, drawings, specifications, software listings, source or object code that HCHB may have imparted or disclosed and/or may from time to time impart or disclose to Client forming all or part of, and relating substantially to, the HCHB System and Licensed Software are proprietary to HCHB and constitute confidential information of HCHB ("HCHB Confidential Information"). Client agrees that it shall use such HCHB Confidential Information solely in accordance with the provisions of this Agreement and that it shall not at any time during or after the expiration or termination of this Agreement impart or disclose any such HCHB Confidential Information, whether directly or indirectly, to any third party without HCHB's prior written consent in each instance. Subject to the foregoing, Client shall take all necessary and reasonable steps to keep the Licensed Software under adequate security to insure that no unauthorized copies or uses are made thereof, and to protect the confidentiality of the Licensed Software. Client shall notify HCHB immediately of any unauthorized use or possession of the Licensed Software (or copies thereof) by third parties. Furthermore, Client agrees not to continue use of any of the HCHB Confidential Information after the expiration or termination of this Agreement. Client moreover agrees not to reverse engineer, disassemble, de-compile, translate or modify the Licensed Software or any part thereof without prior written permission from HCHB, except as necessary to exercise its rights in the Licensed Software herein.

5.3. Client Data . Client shall be solely responsible and HCHB shall not be responsible for the content, accuracy, truthfulness, completeness and quality of all patient health information and any other data, including without limitation data concerning Client's patients, services provided, and/or business operations, entered into the HCHB System (collectively, " Client Data "). Client is and shall remain the sole owner of all Client Data and HCHB assumes no liability with respect to such Client Data based on any violations, causes of action, judgments, allegations, and related costs arising from Client's use of the HCHB System and/or Licensed Software and the content (or lack of content) of the Client Data. Client acknowledges that (a) HCHB may access and/or use such Client Data solely for the purposes of performing its obligations under this Agreement and in accordance with the terms of the Health Insurance Portability and Accountability Act

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of 1996 (" HIPAA ") and the Business Associate Agreement between the parties and (b) HCHB shall have the right to make all legal use of de-identified Client Data created by HCHB pursuant to the HIPAA de-identification standard and implementation specifications under 45 C.F.R. § 164.514. Pursuant to § 164.514(a) of the HIPAA Privacy Rule, Client Data is considered de-identified with respect to a patient or other individual when that Client Data does not identify an individual and with respect to which there is no reasonable basis to believe that the Client Data can be used to identify an individual. All de-identified information created by HCHB in compliance with the Agreement will belong exclusively to HCHB provided that (i) Client will not hereby be prevented from itself creating and using its own de-identified information and (ii) HCHB must present such de-identified information on an anonymous basis, and may not directly or indirectly use or present the data in any way that identifies or could be used to identify the company, provider, or affiliates thereof (including any group of affiliated providers) that supply the Client Data. For consideration of the aforementioned access and/or use of Client de-identified data, HCHB will provide Client with access to and use of HCHB's Benchmarking Services for all such de-identified data [****] for a period of [****] following the date upon which the Benchmarking Services Database includes non-Client de-identified data [****]. As used in this Section 5.3, (a) " Benchmarking Services " means a new product to be developed by HCHB that enables comparative benchmarking, based on de-identified data from HCHB clients, of the operational and clinical performance of homecare agencies and hospice agencies against agencies of similar size and reach, and (b) " Benchmarking Services Database " means the database derived by HCHB exclusively containing de-identified data from HCHB clients for the Benchmarking Services. Benchmarking Services shall be deemed to be incorporated into Schedule A (Licensed Software) of the Agreement.

5.4. The confidentiality provisions of this Section 5 shall not apply to any information (excluding Client Data) that (i) is already known to the receiving party or its affiliates, free of any obligation to keep it confidential; (ii) is or becomes publicly known through no wrongful act of the receiving party or its affiliates; (iii) is received by the receiving party from third party without any restriction on confidentiality; (iv) is independently developed by the receiving party or its affiliates; (v) is disclosed to third parties by the disclosing party without any obligation of confidentiality; (vi) is approved for release by prior written authorization of the disclosing party; or (vii) recipient's legal advisors state must be disclosed to comply with law, regulation, executive or judicial order, or other legal requirement, provided, however, that the party intending to make such disclosure advises the other party as promptly as reasonably possible under the circumstances of the intended disclosure and provides reasonable cooperation in any effort by the other party to obtain a protective order or other similar relief.

6. HCHB's Representations and Warranties; Disclaimers .

6.1. HCHB makes the following representations and warranties to Client:

(a) HCHB has the legal right to enter into this Agreement, to perform its obligations hereunder, and to license the HCHB System and Licensed Software to Client in the manner provided for hereunder.

(b) Neither the HCHB System, HCHB Website, or Licensed Software, nor use thereof pursuant to this Agreement, infringes, misappropriates, or conflicts with, the rights held by any third party under any patent, trademark, copyright, trade secret or other proprietary right. HCHB has used and will use commercially reasonable efforts to ensure that the HCHB System, HCHB Website, and Licensed Software will be free of (i) any computer code or instructions that may disrupt, damage, or interfere with Client's, or any Authorized User's, computer and/or telecommunications facilities (e.g., malicious code or viruses); (ii) any "back doors" or "trap doors" which allow for application code access through the bypassing of any/all security features; and (iii) any barriers designed for, or having

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the effect of, preventing Client and Authorized Users from accessing all of its data (including Client Data) in non-encrypted form with the data structures and relationships preserved.

(c) HCHB shall maintain the Client Data on the HCHB Website, for receipt and transmission of basic data concerning Client's patients on a 24-hour, 7-day per week basis, except during those periods where HCHB performs scheduled maintenance, such as updating the Licensed Software and servicing or upgrading web-hosting equipment (which periods HCHB will use reasonable efforts to minimize and schedule at times least disruptive to Client and its Authorized Users). Whenever possible, HCHB will notify Client of any scheduled maintenance not less than 5 days prior to the scheduled maintenance;

(d) HCHB shall provide computer facilities and high speed Internet connectivity at the hosting site, as required for the operation of the HCHB Website and the use of the HCHB System. HCHB does not warrant that the Licensed Software will meet all of Client's customer and patient requirements, be error free, or operate without interruption.

Performance - Because HCHB back-office applications are accessed via the Internet, it is not feasible to guarantee system performance, because HCHB has no control over a customer's Internet bandwidth and latency. HCHB does guarantee an adequate pipeline between HCHB's system and the Internet, and adequate hardware resources to enable its applications to be responsive for all of our users. HCHB will allow maximum average response time by providing average bandwidth of not less than 125% of the average bandwidth utilization during any one month period and by providing average CPU and memory availability of not less than 125% of average memory utilization during any one month period. Upon Client's request, HCHB will provide Client with reports of monthly bandwidth and memory usage and availability.

Availability - Because HCHB back-office applications are accessed via the Internet, it is not feasible to guarantee system availability because HCHB has no control over a customer's Internet availability. However, HCHB does guarantee that its systems will be up and running, and available to users with Internet availability for a minimum of 99.5% of the time, measured during any continuous 30 day period, excluding planned system outages. System availability is constantly tracked, and all incidents of unplanned loss of availability are recorded and reported to our users. Upon Client's request, HCHB will provide Client with frequent (at least monthly) detailed reports of its back-office response time and availability statistics. Brief, planned system outages are done on a very infrequent basis. These types of outages are for necessary system maintenance or reconfiguration, and are typically performed between 11:00 pm and 4:00 am (EST).

Penalties - In the event and to the extent that the HCHB system does not perform in accordance with the Performance and Availability standards outlined in this Section 6.1(d), HCHB will refund an amount equal to one month of Client's hosting fees (which is the equivalent of one-third of the hosting portion of Client's quarterly Maintenance and Hosting Fee, as calculated according to the Hosting Rate set forth on Schedule "A" hereto).

**Redundant system components and connectivity shall be provided to minimize unscheduled down-time, however, HCHB does not and cannot control the flow of data to or from the HCHB Website and other portions of the Internet. Such flow sometimes depends in large part on the performance of internet services provided or controlled by third parties. At times, actions or inactions of such third parties may impair or disrupt Client's connections to the internet (or portions thereof). Although HCHB will use commercially reasonable efforts to**

**take all actions it deems appropriate to remedy and avoid such events, HCHB cannot guarantee that such events will not occur. Accordingly, HCHB disclaims any and all liability resulting from or related to such events.**

HCHB acknowledges that Client has the ability to conduct impromptu inspections of HCHB's data center and development facilities. HCHB will require only a 48 hour notice to ensure availability of appropriate staff.

(e) HCHB shall perform daily back-ups of all Client Data on the HCHB Website and restore the HCHB Website to the level of the most recent usable back-up, if and when necessary. Upon Client's request, HCHB will also provide a monthly extract for the Client data in a format agreeable to both parties with meta data updates. HCHB will utilize reasonable commercial off-site back-up storage to provide Client added security, to which back-up tapes of Client's data will be transported on at least a weekly basis. Client will have reasonable access rights to the off-site storage of its data.

(f) HCHB shall provide service personnel to assist Client in the use of the HCHB System during HCHB's normal business hours of 8:00 a.m. to 5:00 p.m., Central Standard Time, Monday through Friday, except for HCHB-observed holidays (provided that HCHB will provide Client an annual list of these holidays in advance). The current HCHB-observed holidays are listed in a document previously provided to Client. In addition, HCHB personnel will be available by answering service/pager outside normal business hours but only to receive and respond to reports of emergencies related to the HCHB System, at no charge to Client. Such telephone support is not a substitute for training, and may only be requested by Client's Designated Contacts (as defined in Section 3.3);

(g) HCHB may, at its discretion, develop bug fixes, modifications, improvements and updates to the Licensed Software, the HCHB System and/or HCHB Website (collectively, the "Improvements"). As applicable, the Improvements will be made automatically available to Client and Authorized Users, and in those cases where the Improvements result in significant changes to the graphical user interface or add significant features or functionalities to the HCHB System, HCHB will send a written notice advising Client of the Improvements, the date of proposed release, and any actions required by Client or Authorized Users in order to access and implement such Improvements. HCHB will use reasonable efforts to minimize cost or disruption to Client and its Authorized Users due to any Improvements;

(h) The HCHB System, HCHB Website, and Licensed Software will perform substantially in accordance with the documentation therefor during the term of this Agreement. HCHB will undertake to diagnose and correct in a timely fashion any reported and reproducible failure (or other reproducible failure of which HCHB becomes aware) of the Licensed Software, HCHB System or HCHB Website, to perform substantially in accordance with the documentation when used in or via the desktop computers or mobile computing devices meeting the then-current minimum specifications maintained by HCHB. HCHB will use reasonable efforts to minimize cost or disruption to Client and its Authorized users due to any changes in minimum specifications.

**THE WARRANTIES SET FORTH ABOVE ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY, SATISFACTORY QUALITY, NON-INFRINGEMENT OR FITNESS FOR A PARTICULAR PURPOSE. THE PROVISIONS OF THIS SECTION 6 ARE SUBJECT TO THE LIMITATIONS SET FORTH IN SECTION 13 BELOW.**

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7. Fees .

7.1 Training Fees . Client agrees to pay to HCHB the training fees set forth on Schedule "A" hereto on the date indicated thereon for the training services described in Section 3.2.

7.2. Base License Fee . Client agrees to pay to HCHB a one-time, non-refundable base license fee (the "Base License Fee") in the amount specified on Schedule "A" attached hereto, which Base License Fee shall be payable in accordance with the terms set forth in Section 7.5 below.

7.3. User Fee . Client agrees to pay to HCHB a one-time per user fee (the "User Fee") in the amount specified on Schedule "A" for the number of Licensed Users designated by Client from time to time during the term hereof as Licensed Users of the Licensed Software . The initial number of Licensed Users of Client ("Initial Licensed Users") and the initial User Fee are designated on Schedule "A" hereto. User Fees for additional Licensed Users are due upon authorization of such users by HCHB and will be payable under the same terms and conditions of the initial User Fee (over the 5 years thereafter).

7.4 Maintenance and Hosting Fee . In consideration for the services rendered by HCHB pursuant to Section 6 above, Client agrees to pay to HCHB a quarterly maintenance and hosting fee (the "Maintenance and Hosting Fee"), equal to Client's Base License Fee plus current User Fee (for the number of Licensed Users specified by Client for the Contract Year quarter) multiplied by the Maintenance Rate and Hosting Rate set forth on Schedule "A" hereto. The Maintenance and Hosting Fee for each Contract Year quarter (calculated as of the last day of the month preceding such quarter based on the total number of Client-specified Licensed Users for such quarter on such day, provided that Client may decrease the number of Licensed Users by providing notice to HCHB at least thirty (30) days before the start of the new quarter) will be calculated and paid quarterly in advance and in accordance with the following Section. If Client exercises its option pursuant to Section 10.4 to terminate Hosting and/or Maintenance Services, to reinstate the provision of Hosting and/or Maintenance Services, Client must pay the lesser of applicable: (a) HCHB's new lines fee; or (b) the aggregate of unpaid maintenance fees from the time of cancellation until reinstatement.

7.5 Payments . The aggregate sum of the Base License Fee and the initial User Fees (for the number of Licensed Users set forth in Schedule "A" ) of Client (the "Initial Fees") shall be payable in accordance with the following schedule:

(i) Twenty-five percent (25%) of the Initial Fees shall be due upon the final execution of this Agreement;

(ii) Fifteen percent (15%) of the Initial Fees shall be due no later than 90 days after final execution of this Agreement;

(iii) Ten percent (10%) of the Initial Fees due no later than 180 days after final execution of this Agreement;

(iv) Three point one two five percent (3.125%) of the Initial Fees shall be due at the start of each Contract Year quarter for Contract Year 2 through Contract Year 5 (sixteen quarterly payments), however, such quarterly payments shall be decreased pro rata for any decrease in the Initial Licensed Users;

HCHB will invoice Client for the above Initial Fee installment payments at least thirty (30) days before each due date. In the event Client fails to pay within twenty (20) days after the date due

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any undisputed installments of the Initial Fees, this Agreement shall automatically terminate, and all prior payments received by HCHB shall be deemed fully earned by HCHB and shall not be refunded.

All such Initial Fees described above have been paid in full.

At the end of Contract Year 5, Client shall make quarterly payments of the Maintenance and Hosting Fee described in Section 7.4 for any subsequent quarter during the term of this Agreement. HCHB will invoice Client for Maintenance and Hosting Fees on the first day of each Contract Year quarter, specifying the current number of Licensed Users (which number is calculated per Contract Year quarter and subject to change by Client for each quarter as set forth in Section 7.4). Payment of the Maintenance and Hosting Fee will be due within thirty (30) days of the start of each applicable Contract Year quarter. The failure to pay such invoice (unless disputed) on or before the due date shall constitute a material breach of this Agreement, and Client acknowledges that, in addition to all other remedies available to HCHB under this Agreement, HCHB may, as a result of such material breach, on 24-hours prior notice to Client restrict Client's access to the HCHB Website and the HCHB System until all outstanding undisputed invoices are paid. HCHB reserves the right to charge and collect interest at the lesser of 1.5% per month or the maximum rate allowed under applicable Texas law on the unpaid balance of each undisputed invoice not paid on or before its due date.

7.6. Client Taxes . Client accepts responsibility for all federal, state and local taxes paid or payable under this Agreement, including sales, use, excise and other taxes and all government imposed fees and charges (but excluding any taxes due by HCHB based on its income).

7.7 Self Hosting Option . Client may convert the license set forth in Section 2.1 of the Agreement into a stand-alone non-hosted license by providing HCHB with ninety (90) days prior written notice of its intent to host the Licensed Software on Client's own system, except that if HCHB terminates this Agreement pursuant to Section 10.1 or 10.2 hereof, such notice period will be waived. The parties shall thereafter determine the terms and timeframe for HCHB's delivery of all object code related to the Licensed Software and Client Data in its possession to Client, and HCHB's assistance necessary for an orderly transition of the Licensed Software from its HCHB hosted environment to Client's systems. Once the transition is completed, Client shall no longer be obligated to pay to HCHB a fee for hosting the Licensed Software, and instead the parties shall agree upon an equitable adjustment to the Annual Maintenance and Hosting Fee described in Section 7.4. Furthermore, the frequency of Maintenance releases for self hosted Clients will be limited to one time per year or additionally as necessary to meet changes in regulatory requirements.

8. Insurance . HCHB shall maintain in force during the term of this Agreement a standard fire and extended coverage insurance policy insuring HCHB's web-hosting facility and its contents. HCHB and Client, and all parties claiming under them, mutually release and discharge each other and their respective officers, directors, partners, employees and agents, from all claims and liabilities arising from or caused by any casualty or hazard to the extent covered by valid and collectible insurance on the facility; provided that such release shall not operate in any case where the effect is to invalidate such insurance coverage. This release shall apply even if the loss or damage shall be caused by the fault or negligence of a party hereto or for any person for which such party is responsible.

9. Compliance With Laws . The parties shall at all times comply with all applicable state, federal and local laws and regulations applicable to their respective business operations. Neither party shall engage in any activities that constitute or encourage a violation of any applicable law or regulation, including HIPAA,

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or that defame or invade the privacy of any third party, including any Client patient. The parties agree that to the extent federal, state or local laws are amended or promulgated that impair or affect the terms and

conditions of this Agreement or the manner in which the parties conduct their respective business operations, both HCHB and Client shall use commercially reasonable efforts to effect an amendment to this Agreement to comply with such relevant law or regulations. To the maximum extent possible, any such amendment shall preserve the underlying economic and financial arrangements between the parties. In the event of a change in existing law and the parties are unable to agree to any such amendments required hereunder, the matter of amending the Agreement shall be submitted to dispute resolution in accordance with Section 17 below. HCHB will use commercially reasonable efforts to cause the Licensed Software to function in compliance with mandatory federal, state and local regulations, existing and future, including HIPAA. HCHB agrees that it may be considered a “business associate” of Client under HIPAA and agrees to execute Client’s Business Associate Agreement (to the extent it has not already done so), a copy of which is attached hereto as Exhibit 1 , and to comply with its terms.

10. Termination .

10.1 With Advance Notice . Each party hereto shall have the right to terminate the Agreement in the event of a material breach of this Agreement by the other party. In such event, the party exercising its right to terminate shall provide written notice of such breach to the breaching party and, in all cases other than the failure of Client to pay an undisputed invoice due in accordance with this Agreement, the breaching party shall have a period of thirty (30) days following its receipt of such written notice to cure such breach. If such breach is not cured within such 30-day period, the party exercising its right to terminate may then send written notice to the breaching party terminating the Agreement, and such Agreement shall be terminated upon receipt by the breaching party of such written notice. In the case of Client’s failure to timely pay an outstanding undisputed invoice in accordance with this Agreement, HCHB shall provide written notice of such breach, and such breach must be cured on or before the expiration of ten (10) days following written notice thereof by HCHB; otherwise HCHB may exercise its right to terminate this Agreement.

10.2 Termination Without Advance Notice . Notwithstanding the terms of Section 10.1, each party may terminate this Agreement upon written notice to the other party (which will terminate this Agreement and all obligations of the parties hereunder) in the event of the occurrence of any of the following: (a) the other party assigns or attempts to assign its rights under this Agreement in violation of Section 26; (b) the other party requests or suffers the appointment of a trustee or other receiver, or its assets are attached or judgment is executed upon its business or assets; (c) the other party makes an assignment for the benefit of its creditors; or (d) the other party files a voluntary proceeding in bankruptcy or fails to obtain a dismissal of any involuntary proceeding against it in bankruptcy within sixty (60) days after it is filed. Notwithstanding the terms of Section 10.1, Client may terminate this Agreement upon written notice to HCHB (which will terminate this Agreement and all obligations of the parties hereunder) in the event Client terminates the Business Associate Agreement attached as Exhibit 1 for HCHB’s breach thereof.

10.3. Termination for Convenience . Notwithstanding any other provision in this Agreement, (a) Client may terminate this Agreement at any time and for any reason upon ninety (90) days prior written notice to HCHB, and (b) beginning on the date that is the thirteenth (13th) anniversary of December 19, 2013, HCHB may terminate this Agreement at any time and for any reason upon two (2) years prior written notice to Client.

10.4 Cancellation of Hosting and Maintenance Services . Client shall have the option, exercisable (i) at any time following the expiration of one year from the Effective Date or (ii) immediately if this Agreement is terminated pursuant to 10.2 (b), (c) or (d), or if Client terminates the Business Associate Agreement for

breach, or (iii) immediately if HCHB assigns the agreement or experiences a Change of Control, to provide written notice to HCHB that Client no longer desires for HCHB to continue providing hosting services

("Hosting Service") or maintenance, support and upgrade versions and services ("Maintenance Services" and together with Hosting Services, the "Hosting and Maintenance Services") for Client's continued use of the Licensed Software and, in such event, such Hosting Services and/or Maintenance Services shall cease to be provided by HCHB (x) on a date ninety (90) days from the date of HCHB's receipt of such written notice in the case of scenarios (i) or (iii) above, or (y) immediately in the case of scenario (ii) above (in any such case, the "Cancellation Date"). Such cancellation shall not prejudice HCHB's right for payment for all Hosting Services and/or Maintenance Services provided by HCHB to Client prior to the Cancellation Date, and Client shall remain liable for the payment thereof. On or before the Cancellation Date of Hosting Services and/or Maintenance Services, HCHB shall provide Client with a copy of the then-current executable version of the Licensed Software. After cancellation of Maintenance Services, HCHB shall have no further obligation to provide Client with any upgraded or improved versions of the Licensed Software. Following the Cancellation Date, Client will have no obligation to pay the fees for the cancelled services. Client is hereby granted a present perpetual, non-exclusive, non-transferable right and license to use the Licensed Software in the executable version provided to Client in connection with the Cancellation Date, subject to all of the terms and conditions contained in this Agreement pertaining to Client's use of the Licensed Software, including the ownership and confidentiality provisions of Section 5 herein. Client hereby agrees not to exercise its rights under such license until after the Cancellation Date. If at any time following the Cancellation Date Client shall desire for HCHB to reestablish Hosting Services and/or Maintenance Services on behalf of Client, HCHB agrees to do so provided Client resumes payment of the applicable Hosting and Maintenance Fees as set forth herein, and in addition, pays to HCHB all fees for Maintenance Services to which HCHB would have otherwise been entitled to receive from Client since the Cancellation Date. "Change of Control" of a party occurs when the collective owners of that party's capital stock (or ownership or membership interests) as of the date of this Agreement no longer own at least 50% of such party's capital stock (or ownership or membership interests). In the event Client cancels Maintenance Services and/or Hosting Services, and upon the request of Client, HCHB shall provide reasonable transition assistance on a time and material basis at its then-current hourly rate for such services.

10.5 Transfer of Licensed Software Upon Termination . Upon the expiration or termination of this Agreement without cause by either party, HCHB shall convey and assign to Client, without further payment by Client, the then current version of the Licensed Software, for use in connection with Client's business operations, but not in connection with the operation of a service bureau or processing center for unaffiliated third parties. Such assignment shall not include the source code or any source code materials and HCHB shall have no further obligations to provide any maintenance, support, or upgrades to the Client with respect to its use of the Licensed Software following termination of this Agreement, and any and all expressed or implied warranties with respect to the Licensed Software provided by HCHB pursuant to this Agreement with respect to the Licensed Software shall also terminate and be of no further force or effect.

11. Effect of Termination . Upon the effective date of termination of this Agreement:

(a) HCHB will immediately cease providing to Client access to the HCHB System and the Licensed Software, and all usernames and passwords for Client and its Authorized Users shall be

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deactivated with the following exception; HCHB will allow access by two (2) of Client's Users to Client's data on HCHB's System for up to thirty (30) calendar days from the date HCHB has provided Client with a copy of its data in a machine readable SQL database format;

(b) Any and all undisputed payment obligations of Client under this Agreement for services provided through the date of termination will immediately become due and payable; and

(c) Within fifteen (15) days after such termination, each party will return to the other all Confidential Information and Client Data of the other party in its possession and will not make or retain any copies thereof except as required to comply with applicable laws relating to the retention of Client Data. Client acknowledges and understands that upon termination of this Agreement and return of Client Data to Client, HCHB shall remove Client Data from the HCHB Website. Upon termination, HCHB will provide Client access to the data until data is provided in acceptable format readable to the Client. Client shall be entitled to retain its Client Data and copies of reports which it generated using or with assistance of the Licensed Software prior to the effective date of termination, but shall return, destroy or erase in a secure fashion all copies of the Licensed Software, related documentation and the Manuals that are in the possession of or controlled by Client or an Authorized User and shall certify to HCHB in writing that it has done so. Client will not be required to return any HCHB Confidential Information to HCHB if Client has the continuing right and license to use the Licensed Software pursuant to Section 10.4, and Client may utilize such Confidential Information as reasonably necessary to exercise such rights (and any other continuing rights) hereunder.

12. Indemnification . HCHB will indemnify, defend and hold Client, its affiliates and other customers or clients, harmless from and against any and all costs, liabilities, losses, expenses, including reasonable attorneys' fees, (collectively, "Losses") resulting from or arising out of (a) HCHB's breach of any representation or warranty in this Agreement; (b) HCHB's breach of the Business Associate Agreement; and (c) any claim, suit, action or proceeding (each, an "Action") brought by any third party against such indemnified entities alleging (i) the infringement or misappropriation of any intellectual property right relating to the delivery or use of the HCHB System, the HCHB Website or the Licensed Software, but excluding any infringement contributorily caused by Client; or (ii) the personal injury or damage to real or tangible personal property caused by the negligence or willful misconduct of HCHB. Client will indemnify, defend and hold HCHB, its affiliates and other customers or clients, harmless from and against any and all Losses resulting from or arising out of any Action brought against HCHB, its affiliates or clients alleging any damage or destruction to the HCHB System, the Licensed Software, or HCHB Website caused by Client, any Authorized User, or their respective agents or employees, or which result from Client's breach of this Agreement, the breach of any representation or warranty made by Client in this Agreement, or the failure to comply or otherwise observe the reasonable policies and procedures of HCHB provided by it in the Manuals or any written supplements thereto. Each party's indemnification obligations hereunder shall be subject to (i) receiving reasonably prompt written notice of the existence of any Action; (ii) being able to, at its option, control the defense of such Action; (iii) permitting the indemnified party to participate in the defense of any such Action; and (iv) receiving full cooperation of the indemnified party in the defense thereof.

13. Limitation of Liabilities. [****] NEITHER PARTY SHALL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL OR EXEMPLARY DAMAGES WHATSOEVER (INCLUDING DAMAGES FOR LOSS OF BUSINESS PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, OR OTHER PECUNIARY LOSS) ARISING OUT OF THIS AGREEMENT OR THE PERFORMANCE OR FAILURE OF THE HCHB SYSTEM, THE LICENSED SOFTWARE, OR THE HCHB WEBSITE, OR FOR ACTS OF NEGLIGENCE THAT ARE

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NOT RECKLESS OR INTENTIONAL, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. [****] HCHB'S ENTIRE LIABILITY TO CLIENT OR ANY OTHER PARTY, INCLUDING AN AUTHORIZED USER, FOR ANY LOSS OR DAMAGE RESULTING FROM ANY CLAIMS, DEMANDS OR ACTIONS ARISING OUT OF THIS AGREEMENT OR THE PERFORMANCE OF OR FAILURE TO PERFORM HEREUNDER SHALL NOT EXCEED THE GREATER OF (A) [****] OR (B) [****].

14. Force Majeure. Neither party shall be responsible for the failure to perform in a timely manner under this Agreement (with the exception of undisputed payments due by either party for work or services previously performed) when the failure results from events or conditions beyond the reasonable control of a party, including acts of God, civil war, insurrection or riots, fire, flood, explosion, earthquake, or serious accident, labor disputes, shortages of raw materials, or enactment of legislation rendering the performance of either party hereto unlawful.

15. Independent Contractors . HCHB is and shall perform under this Agreement as an independent contractor. HCHB and Client shall have and maintain exclusive control and direction over all of their respective employees, agents, and operations. Each party assumes full and exclusive responsibility for the payment of all premiums, payroll taxes, and other taxes now or hereafter required by any law or regulation as to its own employees and agents engaged of the performance of its obligations under this Agreement.

16. No Third Party Beneficiaries . This Agreement is for the benefit of HCHB and Client only, and confers no rights or benefits on any other person or entity, including any customer, client, patient, vendor, or affiliate of either party hereto.

17. Dispute Resolution . This Section governs any dispute, disagreement, claim or controversy between the parties to this Agreement arising from or related to this Agreement (a "Disputed Matter"). All Disputed Matters shall be submitted to the following dispute resolution process:

17.1. Internal Resolution . The Disputed Matter shall first be referred jointly to senior executives of each of the parties. If such executives do not agree upon a resolution within ten (10) business days after referral of the matter to them, the complaining party shall proceed to the next stage of this dispute resolution procedure.

17.2. Mediation. The complaining party shall, upon written notice and within ten (10) business days after the conclusion of the internal escalation procedure, elect to have the Disputed Matter referred to non-binding mediation before a single impartial mediator to be jointly agreed upon by the parties. The mediation hearing shall be attended by executives of both parties possessing authority to resolve the Disputed Matter, and shall be conducted no more than thirty (30) business days after a party serves a written notice of an intention to mediate. The parties shall share equally all costs of such mediation. If the Disputed Matter cannot be resolved at mediation, the complaining party shall proceed to the next stage of this dispute resolution procedure.

17.3. Arbitration. In the event that a Disputed Matter has not been resolved through mediation, the complaining party shall submit the Disputed Matter to binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"). The arbitration panel shall have the authority to render any award or remedy allowed by law. The arbitration panel shall consist of three neutral arbitrators selected from the AAA's Panel of Arbitrators, and the arbitration hearing shall be conducted in Dallas, TX. The parties shall diligently attempt to schedule the arbitration hearing for a time within one

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hundred and twenty (120) days after the demand for arbitration hereunder has been issued. Following the hearing, the arbitrators shall issue a written decision specifying the basis of their decision, and the award

made, if any. The cost of the arbitration proceeding shall be shared equally by the parties, but the prevailing party in any arbitration proceeding shall be entitled to recover its reasonable and necessary attorneys' fees and expenses incurred in connection with the arbitration. Provided that Client continues to timely pay HCHB all fees and royalties due under this Agreement, Client shall continue to possess the rights granted to it under this Agreement during the pendency of any Disputed Matter before arbitration.

17.4. Injunctive Relief Pending Arbitration. NOTWITHSTANDING THE FOREGOING, HOWEVER, IT IS AGREED THAT ANY BREACH OF THIS AGREEMENT BY EITHER PARTY MAKING ANY UNAUTHORIZED USE OF THE LICENSED SOFTWARE OR DISCLOSING ANY CONFIDENTIAL INFORMATION OR CLIENT DATA OF THE OTHER PARTY OTHER THAN AS SPECIFICALLY PERMITTED BY THIS AGREEMENT WILL CAUSE IMMEDIATE AND IRREPARABLE HARM. IN THE EVENT OF ANY SUCH BREACH BY A PARTY, THE OTHER PARTY SHALL BE ENTITLED TO PURSUE IMMEDIATE AND INTERIM INJUNCTIVE RELIEF FROM ANY COURT OF COMPETENT JURISDICTION TO RESTRAIN SUCH UNAUTHORIZED USE OR CONDUCT.

18. Expenses. Each party hereto agrees to pay the costs and expenses, including reasonable attorneys' fees, incurred by the other party in successfully enforcing any of the terms of this Agreement in the event of a breach or threatened breach.

19. Entire Agreement. This Agreement and the schedules and exhibits hereto (incorporated herein by this reference) contain the complete agreement among the parties with respect to the transactions contemplated hereby and supersedes all prior discussions and agreements and understandings among the parties with respect to such transactions. All prior "Client Service Agreements" (or agreements of different title) governing Client's use of (or Client's subsidiaries whose use thereof is permitted hereunder) the HCHB System, HCHB Website, or Licensed Software are hereby terminated. Should a conflict arise between the terms and conditions of this Agreement and any statement of work, deliverable, purchase order, invoice, or other communication between the parties hereunder, this Agreement shall control. Should a conflict arise between the Business Associate Agreement attached as Exhibit 1 hereto and this Agreement, the Business Associate Agreement will control.

20. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute only one original.

21. Notices. All notices, demands, requests, or other communications that may be or are required to be given, served or sent by any party to the other party pursuant to this Agreement shall be in writing and shall be mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by hand delivery or facsimile transmission, addressed as follows:

HCHB:

Homecare Homebase, LLC
6688 N. Central Expwy, Suite 800
Dallas, TX 75206
Attention: Tom Maxwell and April Anthony

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Client:

EHHI Holdings, Inc.
6688 N. Central Expwy, Suite 1300
Dallas, TX 75206
Attention: April Anthony

Each party may designate by notice in writing a new address to which any notice, demand, request, or communication may thereafter be so given, served or sent. Each notice, demand, request or communication that is mailed, delivered or transmitted in the manner described above shall be deemed sufficiently given, served, sent and received for all purposes at such time as it is delivered to the addressee, with the return receipt, the delivery receipt, the affidavit of messenger, or the facsimile confirmation of receipt being deemed conclusive evidence of such delivery, or at such time as delivery is refused by the addressee upon presentation.

22. Waivers . The waiver by a party of a breach of any provision of this Agreement by the other party (a) shall not operate or be construed as a waiver of any subsequent breach by such other party and (b) will be valid only if in writing signed by the waiving party.

23. Successors, Transferees, and Assigns . This Agreement and the rights, interests, and obligations hereunder shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors to their entire business, permitted transferees, and permitted assigns.

24. Governing Law . The parties acknowledge and agree that this Agreement and the obligations and undertakings of the parties hereunder will be performable in Dallas, Dallas County, Texas. This Agreement and the rights and obligations of the parties hereto shall be governed, construed and enforced in accordance with the laws of the State of Texas without regard to the conflict of laws provision thereof. If any action is brought to enforce or interpret this Agreement, venue for such action shall be in Dallas County, Texas.

25. Amendment . This Agreement may be amended, modified or supplemented only by a written instrument executed by the party against which enforcement of the amendment, modification or supplement is sought.

26. Assignment . Neither this Agreement nor any right or obligation created hereby shall be assignable by either party hereto without the prior express written approval of the other party (not unreasonably withheld or delayed), except to a successor to its business (which shall include (i) any merger or consolidation of such party in which such party is not the surviving entity, (ii) any sale of in excess of fifty percent (50%) of such party's then outstanding shares of common stock, or (iii) any sale of all or substantially all of such party's assets). For the purpose of this Section, Client may exercise its permitted assignment rights on a per-division basis. If Client decides to execute a permitted assignment regarding some but not all divisions, it may bifurcate this Agreement and transfer the number of Licensed Software seats or users associated with such division to the division itself or any other successor entity. In such a situation, Client and the division or successor entity will each be deemed to retain all rights present under this Agreement (for their respective Licensed Software seats or users) pursuant to two then-separate agreements with HCHB. If HCHB uses
subcontractors to perform any obligations under this Agreement, HCHB will continue to be liable to Client for all such obligations.

27. Survival . The provisions of Sections 1 (first sentence, excluding Section 1(i)) (License), 5 (Ownership of Intellectual Property and Confidential Use), 7.7 (Self-Hosting Option, second sentence only), 10.5 (Transfer of Licensed Software Upon Termination), 10.4 (last sentence only, Cancellation of Hosting

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and Maintenance Services), 9 (Compliance With Laws), 11 (Effect of Termination), 12 (Indemnification), 13 (Limitations of Liability), Sections 15 through 28, Section 30 (References), Section 31 (Non-Solicitation) and Section 33 (Bankruptcy), and all other perpetual rights granted herein shall survive the termination for any reason of this Agreement.

28. Interpretation . As used in this Agreement: "include," "includes" and "including" are not limiting and "or" is not exclusive. Headings included herein are for convenience only, and will not be used to construe this Agreement.

29. [Intentionally Omitted.]

30. References . Client agrees to use its commercially reasonable efforts to serve as a reference site upon reasonable advance notice from HCHB with respect to any prospective third parties to whom HCHB may grant a license to use the Licensed Software or other software useful with the HCHB System.

31. Non-Solicitation . Each party agrees that neither it nor any of its wholly-owned subsidiaries shall attempt to hire any then-current employees of the other party during the term of this Agreement without the other party's prior written consent.

32. HCHB shall provide Client with a report, prepared on an annual basis by an independent third party in accordance with Statement of Auditing Standards 70 or SSAE 16, that provides assurance that HCHB's system of internal controls are in place, properly designed and operating effectively. Such report will include both a Type I assessment that concludes on the adequacy of the design of internal controls as well as a Type II assessment that concludes on the operating effectiveness of these controls.

33. Bankruptcy . The parties intend that the rights and licenses granted by HCHB to Client pursuant to this Agreement are licenses of rights to "intellectual property" for all purposes of Section 365(n) of Title 11 of the United States Code, as such term is defined in Title 11 of the United States Code. The parties agree that all materials provided by HCHB to Client pursuant to this Agreement are "embodiments" of such intellectual property, for the purposes of Section 365(n). HCHB consents to the assumption of this Agreement in bankruptcy.

34. RESERVED.

35. Agreement to Use the License for Future Business . During the term of this Agreement, Client agrees and covenants to use the Licensed Software in all businesses acquired by Client and will upon consummation of any such acquisitions license the Licensed Software for use in such acquired businesses pursuant to the terms and conditions of this License Agreement.

36.1. Source Code License . In the event HCHB files for bankruptcy protection, or Client otherwise has the right to obtain the Source Code for the Licensed Software in the HCHB System pursuant to the Source Code Escrow Agreement (entered into among Iron Mountain, HCHB and Client with Deposit Account Number 35888), Client has the right to obtain the Source Code for the Licensed Software in the HCHB

system pursuant to the Source Code Escrow Agreement provided for in Section 36.2. As used herein, the term " Source Code " means the human readable computer programming information, and all programming documentation reasonably useful for maintaining and updating the Licensed Software, including, but not limited to, narrative descriptions, programming notes, software tools, schematics and information identifying

all third party software and databases used in conjunction with or as a part of the HCHB System and all third-party software used to develop and maintain the Licensed Software.

36.2. Source Code Escrow . The subsisting Source Code Escrow Agreement (under the Deposit Account number previously provided to the other party) shall be updated to list Client as the Beneficiary along with current contact information. HCHB represents and warrants that the Deposit Materials in escrow as of December 19, 2013 include all Licensed Software and the HCHB System as of such date and are current and complete as of such date. HCHB agrees that it will update the Deposit Materials on a quarterly basis with the then current and complete copies of all Licensed Software and the HCHB System.

37. Hosting and Maintenance Services . Unless Client has exercised the self-hosting option under Section 7.7, HCHB shall provide the Hosting and Maintenance Services as more fully set forth in Exhibit A hereto and the failure to provide such services shall be deemed a material breach of this Agreement.

38. Added Services . In addition to the other services to be provided by HCHB hereunder, HCHB hereby agrees to provide the following services to Client [****]:

(a) From February 23, 2011 through December 31, 2012, HCHB will provide to Client, at Client's election, (i) five hundred (500) hours of service in Custom Development (defined below), (ii) one thousand (1,000) hours of service for priority acceleration of specific Road Map Features (defined below) selected by Client, or (iii) a combination of (i) and (ii). If the Client chooses acceleration, then the time required to design the specific accelerated feature will be offset from the available hours described in (ii) above.

" Custom Development " shall mean the development of features that will be deemed proprietary to Client and not available for use by other HCHB clients without the express prior written consent of Client. Such services may include custom features within any of the various Licensed Software modules.

" Road Map Features " shall mean any feature that is outlined on the defined HCHB Technology Road Map, which is an evergreen document outlining features to be included in the upcoming four (4) release cycles.

(b) From January 1, 2013 through December 31, 2015, HCHB will provide to Client, at Client's election, (i) three hundred (300) hours of service in Custom Development, (ii) six hundred (600) hours of service for priority acceleration of specific Road Map Features selected by Client, or (iii) a combination of (i) and (ii). If the Client chooses acceleration, then the time required to design the specific accelerated feature will be offset from the available hours described in (ii) above.

(c) From January 1, 2016, through the end of the term of the Agreement, HCHB will provide to Client, at Client's election, (i) one hundred fifty (150) hours of service in Custom Development, (ii) three hundred (300) hours of priority acceleration of specific Road Map Features selected by Client, or (iii) a combination of (i) and (ii). If the Client chooses acceleration, then the time required to design the specific accelerated feature will be offset from the available hours described in (ii) above.

39. Advisory Boards . HCHB agrees to provide Client with two permanent seats on each of the Home Health Advisory Board and the Hospice Advisory Board (the " Advisory Boards "). HCHB further agrees that neither of the Advisory Boards will be disbanded, or have their responsibilities reduced, without

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the Client's prior written approval. Client agrees to work cooperatively with HCHB to share insights into the needs of a homecare and/or hospice agency, and such cooperation will include providing consultation on a regular basis to HCHB through routine and regular (but in no event any less frequently than Client historically

provided to HCHB prior to December 19, 2013) meetings with the Product Management and Development teams of HCHB, or such other personnel as may be designated by HCHB from time to time. HCHB shall have the unrestricted perpetual right to use the results of all such cooperation, consultation and meetings, except to the extent that Client expressly requests that HCHB keep confidential specific matters addressed during such cooperation, consultation and meetings. In exchange, HCHB agrees to provide Client with access to the Product Management and Development teams on a regular basis to ensure that the needs of Client and the industry are clearly understood and strategically addressed by HCHB.

40. CPI Increases . The Maintenance and Hosting Rate set forth on Schedule "A" hereto may be increased, at the commercially reasonable discretion of HCHB, beginning on the date that is the five (5) year anniversary date of December 19, 2013 and on each anniversary date of December 19, 2013 thereafter (and only on such anniversary date, or within the fifteen (15) day period following such anniversary date, as specified below); provided, that the percentage increase in the Maintenance and Hosting Rate on any such anniversary date shall not exceed the percentage increase, if any, in the CPI Index for the period starting on the date that is one year prior to the applicable anniversary date and ending on such applicable anniversary date. Subject to the immediately preceding sentence, HCHB shall notify Client in writing of any such CPI Index price increase no later than fifteen (15) days following the occurrence of the applicable anniversary date, and if HCHB does not provide such a price increase notice within that fifteen (15) day period, then there shall be no price increase for that year. " CPI Index " means the Consumer Price Index as published by the Bureau of Statistics, U.S. Department of Labor, All Items Consumer Price Index for All Urban Consumers (CPI-U) for the U.S. City Average (1982-84 = 100).

41. Beta Testing . Client shall serve as the HCHB Beta Test Host prior to each HCHB scheduled release for up to four HCHB scheduled releases for each annual period, with the first such annual period commencing on December 19, 2013 and ending on the one year anniversary of such date. As the Beta Test Host, upon reasonable prior written notice from HCHB, Client agrees to allow HCHB to activate new releases on Client servers a minimum of two (2) weeks and a maximum of three (3) weeks prior to the scheduled release to other HCHB clients. During this period, Client agrees to cooperate via communication with appropriate HCHB staff regarding the performance of the Licensed Software and HCHB agrees to cooperate to minimize related costs and disruption to Client. HCHB is entitled to cancel the Beta Test Host services described herein at any time. In consideration for serving as the Beta Test Host, Client shall be entitled to use and access the HCHB Learning Hub ("Hub," which shall be deemed to be incorporated into Schedule A (Licensed Software) of the Agreement) at no cost to Client, as long as Client provides Beta Test Host services and for a period extending six (6) months beyond the date on which HCHB cancels the Beta Test Host services. Following the conclusion of such six (6) month post-cancellation period, Client will be responsible for all License Fees associated with the then active number of users on the Hub and the related maintenance fees for the Hub from that point forward. Client shall have the right to cancel the HCHB Beta Test Host services at any time after three (3) years from December 19, 2013 by providing six months prior written notice to HCHB in accordance with Section 21 of the Agreement.

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Agreed to and accepted as of the dates set forth below.

HOMECARE HOMEBASE, LLC:

By: /s/ Matthew G. Posey
Name/Title: Matthew G. Posey, Chief Financial Officer
Date: December 31, 2014

EHHI HOLDINGS, INC.

By: /s/ G. Robert Thompson
Name/Title: G. Robert Thompson, Chief Financial Officer
Date: December 31, 2014

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**HOMECARE HOMEBASE, LLC**
**RESTATED CLIENT SERVICE AND LICENSE AGREEMENT**
**SCHEDULE A**

**Licensed Software:**

The licensed software includes the following modules:

- Point of Care Module - Home Health
- Office Administration Module
  - Intake Management System
  - Workflow Management System
  - Clinical Pathway System
  - Assessment/OASIS/Validations System
- Billing Module, Scheduling and HR Module
- Point of Care Module - Hospice
- Business Development Module
- Physician Communication Module
- The Licensed Software will also include ([****]) HCHB's Family Communication Module, if and when commercially available (provided that HCHB has no obligation to develop such module or make it commercially available).
- HCHB Learning Hub (to the extent provided pursuant to Section 41 of the Agreement)
- Benchmarking Services (to the extent provided pursuant to Section 5.3 of the Agreement)

**Pricing: Licensing and Maintenance and Hosting Fees**

**User Licenses** - All User Fees shall be [****] Dollars ($[****]) for each Unlicensed Home Health Aide User and [****] Dollars ($[****]) for each other user.

| Licensing and Maintenance and Hosting Fee Schedule | |
|---|---|
| **Base License Fees:** | |
| HCHB Point of Care Module | [****] |
| HCHB Point of Care Module | [****] |
| HCHB Office Administration Module | [****] |
| HCHB Billing/Schedule/HR Module | [****] |
| HCHB Business Development Module | [****] |
| HCHB Physician Communication Module | [****] |
| **Total Base License Fees** | [****] |

The quarterly Maintenance and Hosting Fee will be charged at a rate equal to the Total Base License Fee plus the Total User Fees (for the number of Client-specified Licensed Users for the applicable Contract Year quarter) multiplied by a Hosting Rate of [****] ([****]%) and a Maintenance Rate of [****] ([****]%).

**Training and Implementation Fees:**

Training and implementation fees are charged at $[****] per day per trainer.

- Estimated Training Days Are As Follows (Client may specify fewer or more training days):
  - 3 Days QA with our team in Ft. Worth (2 trainers)

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- 5 Days Staff Training Per Branch (2 trainers)
- 5 Days On Site Training per Branch (2 trainers)

Subsequent training days will be charged at $[****] per day per trainer as requested by Client.

Client will be solely responsible for all reasonable and substantiated travel expenses incurred by trainers (for travel to Client's facilities at Client's request).

**Items Not Included in the Pricing:**

Pricing does not include:

- Any payor interfaces other than the interface to the Medicare intermediary and OASIS submission interfaces (which HCHB estimates to cost $[****] per interface)
- IPAQ's and connectivity kits (cell phones or modem cards) (which HCHB estimates to cost $[****])
- Internet access for Client's offices

**Purchase of OCS Rehospitalization Tool Kit:**

| REOCCURING FEES | PRICE | TOTAL |
|---|---|---|
| OCS Rehospitalization Tool Kit Quarterly Subscription Fee<br>*(EHHI = 60 Provider Numbers)* | $[****] per provider # per quarter | $[****] per quarter |

***Net Fees subject to applicable state sales tax.**

Since OCS Fees are assessed by HCHB annually on October 1 of the billing year, the fees for the OCS Rehospitalization Tool Kit for EHHI will be billed as follows:

On 10/1 the Client will be billed the first of four quarterly installments for the OCS Subscription per Provider Number for use of the service for the coming OCS Calendar Year (10/1/Current Year - 9/30/Next Year). The four quarterly installments are due 10/1, 1/1, 4/1 and 7/1.

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# HOMECARE HOMEBASE, LLC
# RESTATED CLIENT SERVICE AND LICENSE AGREEMENT
# EXHIBIT 1
# BUSINESS ASSOCIATE AGREEMENT

## ENCOMPASS HOME HEALTH
## BUSINESS ASSOCIATE AGREEMENT

This Business Associate Agreement ("Agreement") is made effective the 16th day of September, 2013, ("Effective Date"), by and between Encompass Home Health [1], ("Encompass"), and Homecare Homebase, LLC, ("Business Associate").

RECITALS

I. Encompass is a "covered entity" under the Health Insurance Portability and Accountability Act of 1996, as amended, ("HIPAA"), which, together with the Health Information Technology for Economic and Clinical Health Act, ("HITECH Act") and related laws and regulations (collectively the "HIPAA Rule"), requires that Encompass implement physical, administrative and technical safeguards to ensure the privacy, confidentiality of its patients' and employees' "protected health information" ("Encompass PHI") from unauthorized access, use or disclosure.

II. Encompass may disclose its PHI to a third party "business associate" for the third party to provide or perform business-related services and activities to, for or on behalf of Encompass which involves Encompass PHI. Encompass and Business Associate have a separate Service Agreement, to which this Agreement is ancillary, regarding the provision or performance of the following services or activities which involve the access, receipt, creation, use, disclosure or maintenance of (check one or both) X Secured and/or __ Unsecured Encompass PHI which necessitates this Agreement: Electronic medical record software ("Services" [2]).

III. This Agreement is required by the HIPAA Rule and is generally intended to ensure that Business Associate will, in provision of the Services, comply with the HIPAA Rule and establish and implement appropriate safeguards for the Encompass PHI, and to clarify the extent to which Business Associate may and may not access, use or disclose Encompass PHI.

IV. THEREFORE, in consideration of the terms, conditions and mutual promises herein, and the underlying Service Agreement, the parties agree as follows:

Definitions [3]

A. "Breach" means the unauthorized acquisition, access, use or disclosure of protected health information (PHI) which compromises the security or privacy of the PHI, except where the unauthorized person to whom the PHI was disclosed would not reasonably have been able to retain the information. An unauthorized, impermissible acquisition, access, use, or disclosure of PHI is presumed to be a Breach

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[1] For purposes of this Agreement, the term "Encompass Home Health" means and includes all superior, subsidiary and affiliated entities and agencies of Advanced Homecare Management, Inc.
[2] Includes all multiple locations of Business Associate's services.
[3] The HIPAA Rule should be consulted for the full verbatim text of any Definition.

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unless a risk assessment demonstrates that there is a low probability the PHI has been compromised. [4]

B. “Breach Notice” means that Business Associate shall provide written notice to Encompass within 10 days of the discovery of any incident of Breach of Encompass PHI of which it becomes aware, including any Security Incident. Such notice shall include the dates and description of the incident; the nature and character of the PHI; the names of all Individuals whose PHI was involved; to whom the PHI was disclosed; what Business Associate has done to mitigate the Breach and prevent future occurrences; and any other information that may be required. [5]

C. “Business Associate” means a person, organization or entity not a part of the Encompass workforce, including the Business Associate’s subcontractors and agents, who/which performs some business related service, function or activity to, for or on behalf of Encompass which involves the receipt, access, use, disclosure, creation, possession, maintenance, transmission, storage or destruction of Encompass PHI. [6]

D. “Designated Record Set” means a group of records maintained by or for Encompass that is: (i) the medical records and billing records about Individuals maintained by or for Encompass; (ii) the enrollment, payment, claims adjudication, and case or medical management record systems maintained by or for a health plan; or (iii) used, in whole or in part, by or for Encompass to make decisions about Individuals.

E. “Disclose” and “disclosure” mean the release, transfer, provision of, access to, or the divulging of, in any other manner, information to parties outside the entity holding the information.

F. “HIPAA Rule” means and refers to the Omnibus Privacy, Security, Breach Notification, and Enforcement Rules; 45 CFR Parts 160, 164; 78 Fed. Reg. 5566, et seq, (01/25/2013).

G. “Individual” or “Individual’s Designee” means an Encompass patient or employee whose PHI is at issue; the Designee is a person who has the legal authority to act for and on behalf of the Individual with regard to HIPAA.

H. “Minimum necessary” means the use or disclosure of the minimum amount and type of PHI required to achieve the desired purpose of the request, use or disclosure.

I. “Protected Health Information (“PHI”) means any information, whether oral or recorded in any form or medium: (i) that relates to the past, present or future physical or mental condition of an Individual; the provision of health care to an Individuals; or the past, present or future payment for the provision of health care to an Individual; and (ii) that identifies the Individual or with respect to which there is a reasonable basis to believe the information can be used to identify the Individual. Protected Health Information includes Electronic Protected Health Information (“ePHI”).

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[4] See 45 CFR 164.402.
[5] § 13400 HITECH; 45 CFR § 164.410.
[6] 45 CFR § 160.103. Business Associate’s perform such services for a ‘covered entity’ as claims processing; health plan administration; record storage, maintenance or destruction; PHI messaging or transmission; data analysis, processing or administration; utilization review; quality assurance; billing; benefit or practice management; repricing; legal, actuarial, accounting, consulting, data aggregation, management, administrative, accreditation, or financial services for a covered entity. [45 CFR 160.103(1)].

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J. "Secured PHI" is that PHI which has been rendered unusable, unreadable, or indecipherable to unauthorized Individuals by (a) a technology that is developed or endorsed by a standards developing organization that is accredited by the American National Standards Institute; (b) by de-identification of PHI as prescribed by HIPAA Privacy Regulation; (c) by destruction of the PHI in a manner prescribed by law.

K. "Security Incident" means the attempted or successful unauthorized access, use disclosure, modification or destruction of protected health information or interference with system operations in an information system.

L. "Subcontractor" means an individual or organization, other than a member of the Business Associate's employed workforce, that accesses, uses, discloses, creates, receives, maintains or transmits Encompass PHI for or on behalf of Business Associate.

M. "Unsecured" PHI" means that PHI which has not been rendered unusable, unreadable, or indecipherable to unauthorized persons through the use of a technology or methodology specified by the Rule. (PHI which is not "secured".)

N. Other terms used in this Agreement and not defined shall have the same meaning attributed to them in the HIPAA Rule: Electronic Health Record; Data Aggregation; Health Care Operations; Notice of Privacy Practices; Required By Law; Secretary; Security Rule; Use.

**AGREEMENT**

**OBLIGATIONS OF BUSINESS ASSOCIATE**

1. Business Associate acknowledges and agrees that all Encompass PHI accessed, used, disclosed, received, created or made available in any form by Encompass to Business Associate is subject to this Agreement. Business Associate shall comply with all applicable requirements of the HIPAA Rule and shall assume the following obligations under this Agreement:

(a) not to access, use or disclose Encompass PHI other than as permitted or required by the Service Agreement, this Agreement, or as permitted or required by law;

(b) employ appropriate administrative, technical and physical safeguards to protect the confidentiality and integrity of Encompass PHI, including electronic PHI, and prevent its unauthorized access, use or disclosure;

(c) initiate the Breach Notification procedure as defined herein;

(d) obtain written assurance that any subcontractors or agents of Business Associate that access, use, disclose, create, receive, maintain, or transmit Encompass PHI for or on behalf of Business Associate agree to the same restrictions, conditions, and compliance requirements that apply to Business Associate under this Agreement and the HIPAA Rule;

(e) make Encompass PHI available in a Designated Record Set to Encompass, an Individual, or an Individual's Designee, within 30 days of a request satisfy the HIPAA Rule requirements for an Individual's right of access to the Individuals PHI;

(f) maintain and make available to Encompass, upon request, the information required to provide an accounting of disclosures of an Individual's PHI;

(g) make any amendments to Encompass PHI in a Designated Record Set as directed or agreed by Encompass;

(h) make its internal practices, books, and records available upon request to the Secretary of DHHS for purposes of determining compliance with the HIPAA Rule;

(i) document all Permitted Disclosures of Encompass PHI and report such disclosures to Encompass upon request;

(j) in the event of a Breach by Business Associate, take steps to mitigate the Breach and prevent future occurrences; and

(k) provide access to copies of electronic PHI to Encompass, the Individual or the Individual's Designee and comply with the Security Rule with respect to electronic PHI, if applicable.

**PERMITTED USE AND DISCLOSURE**

2. Business Associate may only access, use or disclose Encompass PHI, under the rule for "minimum necessary" disclosure, as follows: (a) as necessary to perform the services, activities and functions set forth in the Service Agreement and to comply with this Agreement; (b) to de-identify the PHI; (c) to honor direct and valid requests for copies of Encompass PHI from Individuals or their Designee; (d) as authorized by the Individual or their Designee; (e) to honor proper subpoenas or other court orders for copies of Encompass PHI; (f) for data aggregation for the health care operations of Encompass, at its request; (g) for purposes of Business Associate management and administration, and to carry out its legal responsibilities; and/or (h) as otherwise required or permitted by law.

**PROHIBITED USE AND DISCLOSURE**

3. Business Associate shall not use or disclose Encompass PHI as follows: (a) for fund-raising or marketing purposes; (b) to a health plan for payment or health care operations purposes if Encompass has informed the Business Associate that the patient has requested this restriction and has paid out of pocket in full for the health care item or service to which the PHI solely relates; (c) not directly or indirectly receive remuneration in exchange for PHI; or (d) in any manner that would constitute a violation of the HIPAA Rule should Encompass make the disclosure.

**OBLIGATIONS OF ENCOMPASS**

4. Encompass shall:

(a) notify Business Associates of any limitation in its privacy practices to the extent such limitations may affect Business Associate's access to or use or disclosure of PHI;

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(b) notify Business Associate of any changes in, or revocation of an Individual's authorization for Encompass to use or disclose PHI to the extent that such changes may affect Business Associate's access to or use or disclosure of PHI;

(c) notify Business Associate of any restriction to or the use or disclosure of PHI that Encompass has agreed to (including, without limitation any agreement by Encompass not to disclose PHI to a health plan for payment or health care operations purposes) to the extent that such restriction may affect Business Associate;

(d) notify Business Associate of any amendments required to be made to PHI that Business Associate possesses in a designated record set; and

(e) provide Business Associate a current and updated copy of its Notice of Privacy Practices & Patient's Rights.

**MISCELLANEOUS**

5. Term . The Term of this Agreement shall be effective as of the Effective Date first written above and shall automatically renew for one year terms on each anniversary date thereafter unless sooner amended or terminated by the terms herein. Unless amended or terminated, this Agreement shall remain in effect so long as there is an underlying Service Agreement between the parties which necessitates Business Associate's access, use, disclosure or maintenance of Encompass PHI.

6. Amendment; Termination . This Agreement may be amended pursuant to new or changed state or federal laws or regulations which bear directly on the subject matter, definitions, terms, conditions, and provisions of this Agreement. This Agreement may terminate upon the expiration or termination of the Services Agreement or upon 30 days written notice by either party, subject to the Surviving Terms and Conditions and other obligations herein.

7. Surviving Terms and Conditions . Upon termination or expiration of this Agreement, for the ongoing protection of Encompass PHI, the Obligations of Business Associate ; Permitted Uses and Disclosures ; and the Prohibited Uses and Disclosures sections of this Agreement shall survive and be effective for so long as Business Associate has possession and control over any Encompass PHI. Otherwise, Business Associate may, with approval of Encompass, return all Encompass PHI, or in the alternative Business Associate may render the PHI "Secured," as defined herein, with written certification by Business Associate as to the securing of the Encompass PHI.

8. Interpretation . Any ambiguity in this Agreement shall be deferred to the HIPAA Rule and interpreted to permit Encompass to comply with the HIPAA Rule.

9. Indemnification; Liability . Under this Agreement, each party shall be and remain liable for their own acts and omissions, and each party shall indemnify and hold harmless the other from and against all claims, liabilities, penalties, fines, fees, causes of action (civil or regulatory), and/or other costs and expenses, including attorneys' fees, that may arise against one party due to, related to, or regarding the acts or omissions of the other. Business Associate shall be liable to Encompass for all costs incurred associated with any formal HITECH Act Breach Notification required by Encompass which is caused by or due to the acts or omissions of Business Associate.

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10. Notice . For notifications required or permitted by this Agreement, such notices should be sent to the persons and addresses below:

Encompass:

Compliance Officer:
Encompass Home Health
6688 N. Central Expwy., Ste. 1300, Dallas, TX 75206
T - 214/239-6511
F - 1-866-670-1249
Compliance@ehhi.com

Business Associate:

Tom Maxwell, Chief Operating Officer
6688 N Central Expwy. Ste. 800 Dallas, TX 75206
T - 214.239-6731
F - 214/239-6799
tmaxwell@hchb.com

11. Entire Agreement . This Agreement supersedes any and all prior and contemporaneous Business Associate Agreements between the parties and constitutes the final and entire Agreement between the parties hereto with respect to the subject matter hereof.

12. Execution . This Agreement may be executed in multiple parts which collectively comprises a duly executed Agreement. Facsimile copies may be considered a duly executed copy, however each party shall produce an originally-signed copy of the Agreement upon request.

| **“Business Associate”** | **Encompass Home Health** |
|---|---|
| Signature: __________________ | Signature: __________________ |
| Printed Name: ________________________ | Printed Name: ________________________ |
| Title: ____________________ | Title: ____________________ |

**Certain portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The omitted portions of this Exhibit are indicated by the following: [****].**

# HOMECARE HOMEBASE, LLC
# RESTATED CLIENT SERVICE AND LICENSE AGREEMENT
# EXHIBIT A
# HOSTING & MAINTENANCE SERVICES

## EXHIBIT A

(Maintenance, Support and Service Levels)

Because HCHB back-office applications are accessed via the Internet, it is not feasible to guarantee system performance, because HCHB has no control over a customer's Internet bandwidth and latency. HCHB does guarantee an adequate pipeline between HCHB's system and the Internet, and adequate hardware resources to enable its applications to be responsive for all of its users.

Bandwidth

HCHB will allow maximum average response time by providing average bandwidth of not less than 125% of the average bandwidth utilization during any one-month period and by providing average CPU and memory availability of not less than 125% of average memory utilization during any one-month period. Upon Client's request, HCHB will provide Client with reports of monthly bandwidth and memory usage and availability.

System Uptime

HCHB further guarantees that its systems will be up and running and available to users with Internet availability for a minimum of 99.5% of the time, measure during any continuous 30-day period, excluding planned system outages. System availability is constantly traced and all incidents of unplanned loss of availability are recorded and reported to users. Upon Client's request, HCHB will provide Client with frequent (at least monthly) detailed reports of its back-office response time and availability statistics. Brief, planned system outages occur on a very infrequent basis. These outages are for necessary system maintenance or reconfiguration, and are performed between 10:00 p.m. and 4:00 a.m. (EST).

Penalties

In the event and to the extent that the HCHB System does not perform in accordance with the standards set forth above, HCHB will refund to Client, as Client's sole and exclusive remedy, an amount equal to twenty-five percent (25%) of Client's monthly hosting fee payable as set forth in this Addendum and the Agreement.

**Exhibit 10.20**

AMENDED AND RESTATED

SENIOR MANAGEMENT AGREEMENT

THIS AMENDED AND RESTATED SENIOR MANAGEMENT AGREEMENT (" Agreement ") made and entered into as of November 23, 2014, by and among EHHI Holdings, Inc., a Delaware corporation (the " Company "), April Anthony (" Executive "), HealthSouth Corporation, a Delaware corporation (" HLS "), and, solely for purposes of Sections 6(b) and 6(j) hereof, Thoma Cressey Fund VIII, L.P. (" TCF " and, together with Executive, the Company and HLS, the " Parties "), amends and restates the Amended and Restated Senior Management Agreement, dated as of August 3, 2007, by and among the Company, Executive, HCHB Consulting, Inc., AGM Children's Homecare, Inc. and certain individuals identified as Holders therein (the " Existing Employment Agreement ").

RECITALS:

WHEREAS, Executive is presently employed by the Company pursuant to the Existing Employment Agreement;

WHEREAS, as of the date hereof, the Company is entering into a Stock Purchase Agreement (the " Stock Purchase Agreement ") by and among HLS, the additional Sellers party thereto and the Sellers' Representative named therein pursuant to which, as of the Closing Date as defined therein (such date for purposes of this Agreement, the " Effective Date "), a subsidiary of HLS will acquire certain common stock of the Company;

WHEREAS, in connection with the transactions contemplated by the Stock Purchase Agreement, HLS will form HealthSouth Home Health Holdings, Inc., a Delaware corporation (" HHHH ");

WHEREAS, pursuant to Section 12(i) of the Existing Employment Agreement, TCF is to be a party to any amendment or waiver under the Existing Employment Agreement (subject to limitations not relevant here), is joining this Agreement solely for purposes of giving its consent to the contemplated supersession of the Existing Employment Agreement in accordance with Section 6(j) hereof, and following such supersession on the Effective Date, will have no further obligations hereunder;

WHEREAS, Executive desires to continue her employment with the Company, and the Company desires to continue to employ the Executive, pursuant to the terms of this Agreement; and

WHEREAS, the Parties intend that this Agreement shall become effective as of the Effective Date, that as of the Effective Date the Existing Employment Agreement shall cease to be of any force or effect, and that if the Stock Purchase Agreement is terminated before the Effective Date, this Agreement shall be without any force or effect and void ab initio.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

PROVISIONS RELATING TO EMPLOYMENT

1. Employment The Company agrees to employ Executive and she accepts such employment for the period beginning as of the Effective Date and ending upon of her termination of employment pursuant to Section 1(e) hereof (the " Employment Period ").

(a) Duties . During the Employment Period, Executive shall serve as the Chief Executive Officer (" CEO ") of the Company and shall have such duties and responsibilities as are typically commensurate with such position. Executive shall have such other powers and perform such other duties as may from time to time reasonably be prescribed by the Chief Executive Officer of HLS (the " HLSCEO ") which are consistent with the position of CEO of the Company, including serving without additional compensation as an officer or director of the Company's Subsidiaries. Executive's authority shall be subject to the power of the HLSCEO to expand such duties, responsibilities and authority and to override actions of Executive.

(b) Reporting and Devotion to Duties . Executive shall report to the HLSCEO, and she shall devote substantially all of her working time and efforts to the business and affairs of the Company and the Subsidiaries; provided, however, that such service does not materially interfere with the provision of Executive's duties and responsibilities to Homecare Homebase, LLC (" Homecare Homebase "). The Company explicitly acknowledges that Executive (i) may continue to serve as the Chief Executive Officer of Homecare Homebase in a manner consistent with Executive's past practices, or (ii) may serve as Executive Chairperson of Homecare Homebase in a capacity that does not, in the aggregate, exceed the time commitment in effect for Executive in her role as the Chief Executive Officer of Homecare Homebase immediately prior to the Effective Date; provided, however, in the case of clauses (i) and (ii), that such service does not materially interfere with the provision of Executive's duties and responsibilities to the Company and its Subsidiaries. Notwithstanding the foregoing, the Company further acknowledges that Executive may serve as a director of Great Lakes Caring LLC, on the board of directors of the Encompass Cares Foundation, and on the board of trustees of Abilene Christian University. For the avoidance of doubt, the Parties agree that (y) the provision of Executive's duties and responsibilities to the Company and its Subsidiaries immediately prior to the Effective Date is deemed not to materially interfere with the provision of Executive's duties and responsibilities to Homecare Homebase and (z) the provision of Executive's duties and responsibilities to Homecare Homebase immediately prior to the Effective Date is deemed not to materially interfere with the provision of Executive's duties and responsibilities to the Company and its Subsidiaries.

(c) Compensation .

(i) Commencing upon the Effective Date and, thereafter, during the Employment Period, Executive's base salary shall be $347,000 per annum or such higher rate as the Board of Directors of HLS or applicable committee thereof (the " Board ") may designate from time to time, based upon the Company's achievement of budgetary and other objectives set by the Board (as in effect from time to time, the " Base Salary "). Executive's Base Salary shall be payable in regular installments in accordance with the Company's general payroll practices (but no less frequently than monthly) and shall be subject to customary withholding for income tax, social security or other such taxes. Executive's Base Salary for any partial year will be prorated based upon the number of days elapsed in such year.

(ii) In addition to the Base Salary, Executive shall be eligible for an annual bonus (an " Annual Bonus ") of up to 50% of her Base Salary based upon the Company's achievement of its annual budget targets to be set by the Board within sixty (60) days of the start of the fiscal year for which such targets will apply. The Annual Bonus shall be paid by no later than March 1 of the year

following the year in which it was earned and shall be subject to customary withholding for income tax, social security or other such taxes. Except as provided in Section 1(e), Executive shall receive an Annual Bonus payable for a calendar year only if she is employed by the Company or its Subsidiaries as of the date of payment of the Annual Bonus.

(iii) As of the Effective Date, HLS shall cause HHHH to grant to Executive stock appreciation rights in respect of HHHH common stock on the terms and subject to the conditions set forth in Annex B to the Rollover Stock Agreement, dated as of the date hereof, and, each year during the Employment Period through the year ending December 31, 2019, Executive shall be entitled to participate in the HLS Amended and Restated 2008 Equity Incentive Plan (or any successor thereto (the " HLS EIP ")) and receive restricted stock in respect of the common stock of HLS on the terms and subject to the conditions set forth in Annex B to the Rollover Stock Agreement (collectively, the " Equity Grants "). For the avoidance of doubt, nothing in this Section 1(c)(iii) shall prevent HLS from granting (or causing HHHH to grant) Executive such additional equity awards as it may determine from time to time during the Employment Period.

(d) Benefits . In addition to the Base Salary, the Annual Bonus and the Equity Grants payable to Executive pursuant to this Agreement, she shall be entitled to the following benefits during the Employment Period:

(i) paid time off per Company policy;

(ii) reimbursement for reasonable business expenses incurred by Executive on the Company's behalf and within the Company's stated policies and procedures for expense reimbursement, subject to providing appropriate documentation thereof to the Company (including reimbursement for the cost of professional representation and consultation in connection with the negotiation of this Agreement). Such reimbursements will be made within 90 days from the date the expenses are incurred;

(iii) participation in all health, disability, welfare and benefit plans available to the Company's senior executives, all subject to plan terms and generally applicable Company policies;

(iv) participation in all retirement plans available to the Company's senior executives; and

(v) any other benefits and perquisites made available to any member of the Company's senior management team.

(e) Termination .

(i) The Employment Period shall continue for three years commencing on the Effective Date (the " Initial Term ") and shall be automatically renewed for successive one year terms unless the Company or Executive receives written notice from the other at least ninety (90) days prior to the termination of either the Initial Term or a successive term then in effect, unless earlier terminated as provided herein. Executive or the Company may terminate Executive's employment prior to the end of the term set forth in the preceding sentence, as set forth in this Section 1(e); provided , that written notice to Executive shall be required thirty (30) days prior to termination by the Company without Cause and written notice to the Board shall be required thirty (30) days prior to termination by Executive without Good Reason. The Parties' rights and duties in the event of a termination of employment will be as set forth below.

(ii) If the Company terminates Executive's employment without Cause or Executive terminates her employment for Good Reason, the Company will, in lieu of any other payments or benefits hereunder:

(A) continue to pay Executive's Base Salary at the rate in effect on the Date of Termination until the date that is twelve months after the Date of Termination in accordance with the Company's payroll practices (but not less frequently than monthly);

(B) pay to Executive any Annual Bonus for any fiscal year that has ended prior to the Date of Termination, if such Annual Bonus has not yet been paid as of the Date of Termination (payable on the later of the date that annual bonuses are paid generally, in accordance with Section 1(c)(ii) hereof, and the next regular payday following the effective date of the release of claims referenced below in this Section 1(e));

(C) pay to the Executive an amount equal to the amount of the COBRA premium required to continue health coverage for Executive and her dependents under the Company's group health plan to the extent permitted by the plan (provided that such amount shall not exceed the Company's cost of coverage prior to termination) until the earliest of (i) the date that is twelve months after the Date of Termination, (ii) the date of commencement of health coverage for the benefit of Executive and her dependents under any other plan, and (iii) the date of Executive's eligibility for health coverage as a result of her employment with another entity; and

(D) pay to Executive a ratable amount (based on Executive's Base Salary) with respect to accrued and unused paid time off as of the Date of Termination.

The right to receive the benefits set forth above is expressly conditioned on Executive's execution and delivery to the Company of a release of claims arising out of Executive's employment with the Company or termination thereof, in a form reasonably acceptable to the Company, as of the Date of Termination. Additionally, if the Executive materially breaches her obligations under Sections 2 or 3 of this Agreement during the period in which the Executive is entitled to such benefits, the Executive no longer shall be entitled to receive such benefits and the Company will have no further obligation to provide such benefits to the Executive. In any event, the Company will reimburse the Executive for any unreimbursed business expenses pursuant to Section 1(d)(ii) of this Agreement.

(iii) If (A) the Company terminates Executive's employment for Cause or (B) the Executive terminates her employment without Good Reason, the Company will, in lieu of any other payments or benefits hereunder, pay the Executive's Base Salary through the Date of Termination, at the rate then in effect, plus reimbursement of business expenses pursuant to Section 1(d)(ii) of this Agreement, without any obligation to pay any other amounts hereunder.

(iv) If the Executive terminates or the Company terminates Executive's employment because of the Executive's death or Disability for a period of ninety (90) consecutive days or one hundred eighty (180) total days during any period of three hundred sixty five (365) consecutive days, the Company will, in lieu of any other payments or benefits hereunder, continue to pay the Executive's Base Salary through the Date of Termination at the rate then in effect, without any obligation to pay any other amounts hereunder in cash or otherwise.

(v) Payments under Section 1(e)(ii) shall be made without regard to Sections 280G or 4999 of the Internal Revenue Code of 1986, as amended (the " Code "), except that if Executive's total

after-tax payments would be increased by a reduction of payments or benefits under Section 1(e)(ii), or by the adjustment to the vesting of any equity-based or other awards that would otherwise be an "excess parachute payment" within the meaning of Section 280G of the Code, such reduction and/or adjustment shall be made to the extent necessary to maximize Executive's total after-tax payments. After-tax payments shall be determined after reduction for federal taxes, including the excise tax under Section 4999 of the Code. The calculations described in this Section 1(e)(v) shall be made by such certified public accounting firm as the Company may designate prior to the applicable change in ownership or effective control, or in the ownership of a substantial portion of the assets, of the applicable corporation under Section 280G of the Code.

2. Confidential Information and Inventions and Patents .

(a) Confidential Information . Executive acknowledges that the information, observations and data obtained by her concerning the business and affairs of the Company and its Affiliates and its and their predecessors during the course of her performance of services for, or employment with, any of the foregoing Persons (whether or not compensated for such services) are the property of the Company and its Affiliates, including information concerning acquisition opportunities in or reasonably related to the Company's business or industry of which Executive becomes aware during such period. Therefore, Executive agrees that she will not (and shall cause each of her Affiliates not to) at any time (whether during or after the Employment Period) disclose to any unauthorized Person or, directly or indirectly, use for her own account, any of such information, observations or data without the Board's consent, unless and to the extent that the aforementioned matters become generally known to and available for use by the public other than as a direct or indirect result of Executive's acts or omissions to act. Executive agrees to deliver to the Company at the termination of her employment with the Company, or at any other time the Company may request in writing (whether during or after the Employment Period), all memoranda, notes, plans, records, reports and other documents and copies thereof, regardless of the format or media, of the Company and its Affiliates (including, without limitation, all acquisition prospects, lists and contact information) which she may then possess or have under her control, except any information relating to her employment terms and benefits, her performance, or the circumstances of her departure from the Company.

(b) Inventions and Patents . Executive acknowledges that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, trade secrets, reports and all similar or related information (whether or not patentable) that relate to the Company's or any of its Affiliates' actual or anticipated business, research and development or existing or future products or services and that are conceived, developed, made or reduced to practice by Executive while employed by the Company and its Affiliates or any of its and their predecessors (" Work Product ") belong to the Company or such Affiliate and Executive hereby assigns, and agrees to assign, all of the Work Product to the Company or such Affiliate; provided that the foregoing shall not apply to any inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) of the information technology systems and software licenses from Homecare Homebase. Any copyrightable work prepared in whole or in part by Executive in the course of her work for any of the foregoing entities shall be deemed a "work made for hire" under the copyright laws, and the Company or such Affiliate shall own all rights therein. To the extent that any such copyrightable work is not a "work made for hire," Executive hereby assigns and agrees to assign to Company or such Affiliate all right, title and interest, including without limitation, copyright in and to such copyrightable work. Executive shall promptly disclose such Work Product and copyrightable work to the Board and perform all actions reasonably requested by the Board (whether during or after the Employment Period) to establish and confirm the Company's or its Affiliate's ownership (including, without limitation, assignments, consents, powers of attorney and other instruments).

3. Noncompetition and Nonsolicitation .

(a) Noncompetition . In further consideration of the compensation to be paid to Executive hereunder, she acknowledges that during the course of her employment with the Company and its Affiliates (including, without limitation, any predecessors thereof) she has become familiar with, and during the course of her employment with the Company and its Affiliates she will become familiar with, the Company's and its Affiliates' trade secrets and with other Confidential Information. Executive acknowledges that her services shall be of special, unique and extraordinary value to the Company and its Affiliates and that the Company's ability to accomplish its purposes and to successfully pursue its business plan and compete in the marketplace depends substantially on the skills and expertise of the Executive. Therefore, and in further consideration of the compensation being paid to the Executive hereunder, she agrees that, during the Noncompete Period (as defined below), she shall not directly or indirectly engage or become interested in, whether as an owner, general partner, member, officer, employee, consultant, director, stockholder or otherwise (other than passive ownership of less than five percent (5%) of any class of securities of an entity, but without otherwise participating in the activities of such entity, whose securities are listed on a national or regional securities exchange or stock market and have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended), any business of which the primary activity is the provision of products or services within the Restricted Territory (as defined below) that, as of the Date of Termination, are competitive with, are offered or being developed by the Company or any of its Subsidiaries, joint ventures or partnerships, including, without limitation, if applicable, any business directly or indirectly engaged in the business of operating or managing a home health practice or the acquisition of companies so engaged. The " Noncompete Period " shall mean the Employment Period and the period beginning on the Date of Termination and ending upon the second anniversary of the Date of Termination. " Restricted Territory " shall mean any state or territory of the United States in which the Company or its Subsidiaries are located or operate, or is in the process of actively planning to conduct or conducting operations, as of the Date of Termination of the Employment Period; provided the foregoing shall not preclude or limit the Executive's activities relating to Homecare Homebase so long as such activities do not entail the operation of home health agencies in the Restricted Area, or any activities approved by written consent of the Board. Executive acknowledges that the geographic boundaries, scope of prohibited activities and the time duration are reasonable and are no broader than are necessary to protect legitimate business interests.

(b) Nonsolicitation . In addition, Executive agrees that, during the Employment Period and for two years thereafter (the " Nonsolicitation Period "), she shall not (and shall cause all of her Affiliates not to), directly or indirectly through another Person (i) induce or attempt to induce any employee of the Company or any of its Subsidiaries to leave the employ of the Company or any of its Subsidiaries, or in any way interfere with the relationship between the Company or any of its Subsidiaries and any employee thereof, (ii) hire (in any capacity) any Person who was an employee of the Company or any of its Subsidiaries at any time during the six month period immediately prior to the date on which such hiring would take place (it being conclusively presumed by the Parties so as to avoid any disputes under this Section 3(b) that any such hiring within such six month period is in violation of clause (a) above), (iii) for so long as Executive has any obligations under Section 3(a) above, call on, solicit or service any customer, supplier, licensee, licensor or other business relation of the Company or any of its Subsidiaries in order to induce or attempt to induce such Person to cease doing business with the Company or any of its Subsidiaries, (including making any negative statements or communications about the Company or any of its Affiliates) or (iv) initiate or engage in any discussions regarding an acquisition of, or Executive's employment (whether as an employee, an independent contractor or otherwise) by, any businesses in which the Company or any of its Subsidiaries within the two (2) year period prior to the Date of Termination has had or is engaged in discussions, or has requested or received information, relating to the acquisition of such business by the Company or any of its Subsidiaries. This paragraph shall not preclude or limit the Executive's activities relating to Homecare Homebase so long

as such activities do not entail the operation of home health agencies in the Restricted Area, or any activities approved by written consent of the Board.

(c) Enforcement. If, at the time of enforcement of Sections 2 or 3 of this Agreement, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the Parties agree that the maximum duration, scope or geographical area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum duration, scope and area permitted by law. Because Executive's services are unique and because Executive has access to Confidential Information, the Parties agree that money damages would not be an adequate remedy for any breach of this Agreement. Therefore, in the event a breach or threatened breach of this Agreement, the Company or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security and without proving damages).

GENERAL PROVISIONS

4. Definitions. For purposes of this Agreement:

"Affiliate" means, as to any Person, any other Person, which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided, however, that for the purposes of this Agreement Homecare Homebase shall not be deemed an Affiliate of Executive, the Company, or any of its Affiliates.

"Cause" shall mean (i) dishonesty, fraud, or any act involving moral turpitude on the Executive's part in connection with the performance of her duties which is materially detrimental to the Company or any of its Affiliates, (ii) being charged (by indictment, information or otherwise) with any criminal violation of any law or regulation pertaining to health care and/or pharmaceutical services and products (including, without limitation, laws and regulations pertaining to reimbursement or coverage by the Medicare program, any state Medicaid program or any other governmental health care program or by third-party payors, laws prohibiting kickbacks or false claims, and laws prohibiting fraud or abuse or fraudulent or abusive activities), (iii) the Executive's willful and repeated refusal to follow lawful directives of the Board in a manner that is materially detrimental to the Company, (iv) the Executive's intentional or gross neglect of the performance of her duties as Chief Executive Officer of the Company, (v) the Executive's misappropriation of any corporate opportunity, provided the Executive's pursuit or referral of an opportunity shall not be improper or misappropriation if (A) the Executive first presents an opportunity to the Company and the Company does not express an interest in pursuing it within thirty (30) days or (B) the Board authorizes the Executive to pursue or refer an opportunity to another Person or entity, (vi) the Executive's conviction of a felony, (vii) a material breach by the Executive of this Agreement, including but not limited to Sections 2 and 3; provided, Cause shall not exist unless and until (1) the Executive receives written notice from the Board stating the Board's intent to terminate Executive's employment and such written notice includes a reasonably detailed explanation of the reasons for such intent and states the subsection of the Cause definition that the Board believes to be present, (2) in the circumstances described in clauses (iii), (iv), (v) and (vii), the Executive shall have fifteen (15) days to cure the alleged default after written notice by the Board, (3) the Executive may address the Board at a duly-scheduled meeting of the Board, and shall be able to bring counsel if the Board chooses to have counsel present at such meeting, at which Company counsel shall be present at such meeting and (4) the Board votes to authorize a termination for Cause.

“ Confidential Information ” means all information of a confidential or proprietary nature (whether or not specifically labeled or identified as “confidential”), in any form or medium that relates to the Company or its Affiliates or their business relations and their respective business activities. Confidential Information includes, but is not limited to, the following: (i) internal business information (including information relating to strategic and staffing plans and practices, business, training, marketing, promotional and sales plans and practices, cost, rate and pricing structures and accounting and business methods); (ii) identities and individual requirements of, and specific contractual arrangements with, the Company’s and its Affiliates’ joint venture partners, vendors or customers and other business relations and their confidential information; (iii) trade secrets, know-how, compilations of data and analyses, techniques, systems, formulae, research, records, reports, manuals, documentation, models, data and data bases relating thereto; (iv) inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable), (v) intellectual property rights, and (vi) financial information.

“ Date of Termination ” shall mean the date the Executive’s employment with the Company terminates regardless of the reason.

“ Disability ” shall have the meaning defined in the long-term disability insurance plan of the Company or its Affiliates in which the Executive participates.

“ Executive ” means April Anthony.

“ Good Reason ” shall mean (i) any material reduction in the Executive’s pay or benefits or failure to provide any compensation or benefit to which the Executive is entitled other than in connection with a Company-wide reduction in pay or benefits, or any reduction in Base Salary below $247,000, regardless of the circumstances, (ii) any relocation of Executive’s primary work site by more than twenty (20) miles from both Executive’s prior primary work site and Executive’s primary residence, (iii) a material diminution of the Executive’s duties, responsibilities or title, or (iv) a material breach by the Company of this Agreement; provided , that in the circumstances described in (i), (ii), (iii) and (iv) the Company shall have fifteen (15) days to cure the default after delivery written notice by the Executive, such written notice to state the nature of the issue and subsection of the Good Reason definition that the Executive believes to be present.

“ Person ” means an individual, a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“ Subsidiary ” means any corporation or other entity of which the Company owns securities having a majority of the ordinary voting power in electing the board of directors or other body having direction over the affairs of such entity either directly or through one or more subsidiaries.

5. Notices . All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the recipient, one day after being sent to the recipient by reputable overnight courier service (charges prepaid), upon machine-generated acknowledgement of receipt after transmittal by facsimile or five days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the Company and the Executive at the address set forth below, or at such address or to the attention of such other Person as the recipient Party has specified by prior written notice to the sending Party.

Notices to Executive :

At the most recent contact information on file in the Company's payroll records.

Notices to the Company :

EHHI Holdings, Inc.
6688 North Central Expressway
Suite 1300
Dallas, TX 75206
Attention: Secretary

With copies (which shall not constitute notice) to :

HealthSouth Corporation
3660 Grandview Parkway, Suite 200
Birmingham, Alabama 35243
Facsimile number: (205) 262-3948
Attention: General Counsel

6. General Provisions

(a) Severability . Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

(b) Complete Agreement . This Agreement and those other documents expressly referred to herein and therein embody the complete agreement and understanding among the Parties and supersede and preempt any prior understandings, agreements or representations by or among the Parties, written or oral, which may have related to the subject matter hereof in any way (including, without limitation, the Existing Employment Agreement).

(c) Counterparts . This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

(d) Successors and Assigns . Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by Executive, the Company and HLS and their respective successors and assigns; provided that the rights and obligations of Executive under this Agreement shall not be assignable. There are no third-party beneficiaries of or to this Agreement.

(e) Choice of Law . The corporate law of the State of Delaware will govern all issues and questions concerning the relative rights of the Company and its stockholders. All other issues and questions concerning the construction, validity and interpretation of this Agreement and the exhibits hereto will be governed by, and construed in accordance with, the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. All actions

or proceedings arising out of or from or related to this Agreement shall be litigated in courts having situs in Dallas, Texas. Executive and the Company hereby consent and submit to the jurisdiction of any local, state or federal courts located within such county. Executive and the Company hereby waive any right either may have to transfer or change the venue of any litigation brought by the other in accordance with the terms of this Section.

(f) Remedies . Each of the Executive and the Company will be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including attorney's fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The Executive and the Company agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any Party may in its sole discretion apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any violations of the provisions of this Agreement.

(g) Amendment and Waiver . The provisions of this Agreement may be amended only with the prior written consent of the Company, HLS and Executive, and any provision of this Agreement may be waived only by the Party waiving compliance.

(h) Business Days . If any time period for giving notice or taking action hereunder expires on a day which is a Saturday, Sunday or holiday in the state in which the Company's chief executive office is located, the time period shall be automatically extended to the business day immediately following such Saturday, Sunday or holiday.

(i) Indemnification and Reimbursement of Payments on Behalf of Executive . The Company and its Affiliates shall be entitled to deduct or withhold from any amounts owing from the Company or any of its Affiliates to the Executive any federal, state, local or foreign withholding taxes, excise taxes, or employment taxes (" Taxes ") imposed on Executive with respect to the Executive's compensation or other payments from the Company or any of its Affiliates or the Executive's ownership interest in HHHH or HLS, including, but not limited to, wages, bonuses, dividends, the receipt or exercise of stock appreciation rights and/or the receipt or vesting of restricted stock. Executive shall be solely responsible for all other taxes, if any, associated with the amounts payable under this Agreement.

(j) Effectiveness of Agreement and Replacement of Prior Agreements . Upon the Closing as such term is defined in the Stock Purchase Agreement, (i) this Agreement shall supersede and replace the Existing Employment Agreement and (ii) the Existing Employment Agreement shall thereupon be terminated and without any further force or effect, with no penalty or severance payable to any Person as a result of such termination. In the event that the Stock Purchase Agreement is terminated before the Effective Date, this Agreement shall be simultaneously and automatically terminated, void ab initio and of no further force or effect, and the Existing Employment Agreement thereupon shall continue in effect in accordance with its terms.

(k) Termination . Except as otherwise provided herein, this Agreement shall survive the termination of Executive's employment with the Company and shall remain in full force and effect after such termination.

(l) Generally Accepted Accounting Principles; Adjustments of Numbers . Where any accounting determination or calculation is required to be made under this Agreement or the exhibits hereto, such determination or calculation (unless otherwise provided) shall be made in accordance with generally accepted accounting principles, consistently applied, except that if because of a change in generally accepted

accounting principles the Company would have to alter a previously utilized accounting method or policy in order to remain in compliance with generally accepted accounting principles, such determination or calculation shall continue to be made in accordance with the Company's previous accounting methods and policies. All numbers set forth herein which refer to share prices or amounts will be appropriately adjusted to reflect stock splits, stock dividends, combinations of shares and other recapitalizations affecting the subject class of stock.

(m) Reformation; Specified Employee . The Executive and the Company agree that if any provision of this Agreement is deemed unenforceable or invalid, it may be reformed to permit enforcement of the objectionable provision to the fullest permissible extent. Any provision of this Agreement deemed unenforceable after modification shall be deemed stricken from this Agreement, with the remainder of the Agreement being given its full force and effect. Notwithstanding any other provision with respect to the timing of payments under this Agreement, if, at the time of the Executive's termination of employment, the Executive is deemed to be a "specified employee" (within the meaning of Section 409A(a)(2)(B) of the Code), and any successor statute, regulation and guidance thereto) of the Company, then only to the extent necessary to comply with the requirements of Section 409A of the Code, any payments to which the Executive may become entitled under this Agreement as a result of the Executive's termination of employment which are subject to Section 409A of the Code (and not otherwise exempt from its application) will be withheld until the first business day of the seventh month following the Date of Termination, at which time the Executive shall be paid an aggregate amount equal to six months of payments otherwise due to the Executive under the terms of or a full lump sum if otherwise due. For purposes of Section 409A of the Code, each payment made under this Agreement shall be treated as a separate payment. Further, notwithstanding anything herein, to the extent that the Executive or the Company reasonably believes that Section 409A of the Code will result in adverse tax consequences to the Executive as a result of this Agreement, then the Executive and the Company shall renegotiate this Agreement in good faith in order to minimize or eliminate such tax consequences and retain the basic after-tax economics of this Agreement for the Executive to the extent reasonably possible.

(n) No Strict Construction . The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement.

(o) Descriptive Headings; Interpretation . The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement. The use of the word "including" in this Agreement shall be by way of example rather than by limitation. Definitions are equally applicable to both the singular and plural forms of the terms defined, and references to the masculine, feminine or neuter gender include each other gender.

(p) Resolution of Disputes .

(i) Mediation . No Party shall initiate arbitration or other legal proceedings against any other Party arising out of or relating in any way to this Agreement, except that any Party may seek injunctive relief at any time. No such arbitration or proceeding shall be initiated in respect of Executive's employment with the Company or any and all claims that one Party may have against another Party or its Affiliates until thirty (30) days after written notice has been given of the specific nature of any purported claim and the amount of any purported damages. The Parties further agree that if any Party submits the claim to the American Arbitration Association for nonbinding mediation prior to the expiration of such thirty (30) day period, no other Party may institute arbitration or other

legal proceedings against the claimant Party until the earlier of: (i) completion of nonbinding mediation efforts, or (ii) forty-five (45) days after the date on which the non-claimant Party receives notice of the claimant Party's claim. The mediation shall be conducted in Dallas, Texas or such other location to which the applicable Parties may agree.

(ii) Arbitration . Except as provided in Section 6(f) or Section 6(p)(iii), any dispute or controversy between or among the Parties, whether arising out of or relating to this Agreement, the breach of this Agreement, or otherwise, shall be settled by arbitration in Dallas, Texas or such other location to which the applicable Parties may agree administered by the American Arbitration Association, with any such dispute or controversy arising under this Agreement being so administered in accordance with its Employment Rules then in effect, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator shall have the authority to award any remedy or relief that a court of competent jurisdiction could order or grant, including, without limitation, the issuance of an injunction. Except as necessary in court proceedings to enforce this arbitration provision or an award rendered hereunder, or to obtain interim relief, neither a Party nor an arbitrator may disclose the existence, content or results of any arbitration hereunder without the prior written consent of the Company and Executive. The Parties acknowledge that this Agreement evidences a transaction involving interstate commerce. Notwithstanding any choice of law provision included in this Agreement, the United States Federal Arbitration Act shall govern the interpretation and enforcement of this arbitration provision.

(iii) Enforcement . The Parties agree that the Company and its Affiliates would be damaged irreparably in the event that any provision of Section 2 or 3 of this Agreement were not performed in accordance with its terms or were otherwise breached, and that Executive would be damaged irreparably in the event of certain conduct by the Company and its Affiliates, and that money damages would be an inadequate remedy for any such nonperformance or breach. Accordingly, the Executive and the Company and its successors and permitted assigns shall be entitled, in addition to other rights and remedies existing in its favor, to seek an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security). Executive, the Company and its Affiliates agree to submit to the personal jurisdiction of the courts of the State of Texas in any action by the Company to enforce an arbitration award against Executive or to obtain interim injunctive or other relief pending an arbitration decision.

*Remainder of page intentionally left blank.*

In witness whereof, the Parties have caused this Agreement to be executed by their respective duly authorized officers (as applicable) as of the day and year first written above.

**THE COMPANY:** EHHI HOLDINGS, INC.

By: /s/ April Anthony
Name: April Anthony
Title:

**THE EXECUTIVE:** By: /s/ April Anthony
Name: April Anthony

**AGREED AND ACCEPTED:**

HEALTHSOUTH CORPORATION

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

THOMA CRESSEY FUND VIII, L.P. (for purposes of Sections 6(b) and 6(j) hereof only)

By: TC Partners VIII, L.P.
Its: General Partner

By: Thoma Cressey Bravo, Inc.
Its: General Partner

By: /s/ Bryan Cressey
Name: Bryan Cressey
Title:

**HealthSouth Corporation and Subsidiaries**

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

**AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

In computing the ratio of earnings to fixed charges: (1) earnings have been based on income from continuing operations before income taxes, fixed charges (exclusive of interest capitalized), and distributed income of equity investees and (2) fixed charges consist of interest and amortization of debt discounts and fees expense (including amounts capitalized), the estimated interest portion of rents, and dividends on our convertible perpetual preferred stock.

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2015** | **2014** | **2013** | **2012** | **2011** |
| COMPUTATION OF FIXED CHARGES: | | | | | |
| Interest expensed and capitalized in continuing operations, including amortization of debt discounts and fees | $ 144.2 | $ 110.7 | $ 102.3 | $ 95.1 | $ 119.9 |
| Interest expensed and capitalized in discontinued operations, including amortization of debt discounts and fees | — | — | — | 0.1 | 0.7 |
| Interest element of rentals [1] | 20.6 | 19.8 | 21.6 | 22.1 | 22.3 |
| Total fixed charges | 164.8 | 130.5 | 123.9 | 117.3 | 142.9 |
| COMPUTATION OF EARNINGS: | | | | | |
| Pre-tax income from continuing operations before equity in net income of nonconsolidated affiliates | $ 386.9 | $ 376.2 | $ 384.0 | $ 327.3 | $ 230.9 |
| Fixed charges | 164.8 | 130.5 | 123.9 | 117.3 | 142.9 |
| Amortization of capitalized interest | 0.2 | 0.2 | 0.1 | — | — |
| Distributed income of equity investees | 7.7 | 12.6 | 11.4 | 11.0 | 13.0 |
| Interest capitalized | (1.3) | (1.5) | (1.9) | (1.0) | (0.5) |
| Total earnings | $ 558.3 | $ 518.0 | $ 517.5 | $ 454.6 | $ 386.3 |
| RATIO OF EARNINGS TO FIXED CHARGES | 3.4 | 4.0 | 4.2 | 3.9 | 2.7 |

[1] Management has determined the interest component of rent expense to be 33%.

Exhibit 21.1

**HEALTHSOUTH CORPORATION**
**SUBSIDIARY LIST**

| Subsidiary Name | Jurisdiction of Incorporation | DBA |
|---|---|---|
| Advantage Health, LLC | DE | |
| AnMed Enterprises, Inc./HealthSouth, L.L.C. | SC | AnMed Health Rehabilitation Hospital, an affiliate entity of AnMed Health and HealthSouth Corporation |
| BJC/HealthSouth Rehabilitation Center, L.L.C. | MO | The Rehabilitation Institute of St. Louis<br>Milliken Hand Rehabilitation Center<br>The Orthopedic Center |
| Central Arkansas Rehabilitation Associates, L.P. | DE | St. Vincent Rehabilitation Hospital<br>CHI St. Vincent Hot Springs Rehabilitation Hospital an affiliate of HealthSouth |
| Central Louisiana Rehab Associates, L.P. | DE | HealthSouth Rehabilitation Hospital of Alexandria |
| CMS Alexandria Rehabilitation, LLC | DE | |
| CMS Development and Management Company, Inc. | DE | |
| CMS Fayetteville Rehabilitation, Inc. | DE | |
| CMS Jonesboro Rehabilitation, Inc. | DE | HealthSouth Rehabilitation Hospital of Jonesboro |
| CMS Kansas City Rehabilitation, Inc. | DE | |
| CMS Rehab of WF, L.P. | DE | HealthSouth Rehabilitation Hospital of Wichita Falls |
| CMS Sherwood Rehabilitation, Inc. | DE | |
| CMSI Systems of Texas, Inc. | TX | |
| Continental Medical of Arizona, Inc. | DE | |
| Continental Medical of Colorado, Inc. | DE | |
| Continental Medical of Kentucky, Inc. | DE | |
| Continental Medical Systems, Inc. | DE | |
| Continental Rehab of W.F., Inc. | TX | |
| Continental Rehabilitation Hospital of Arizona, Inc. | DE | |
| HCA Wesley Rehabilitation Hospital, Inc. | DE | Wesley Rehabilitation Hospital, An Affiliate of HealthSouth<br>Wesley Home Health |
| HCS Limited | Cayman Islands, B.W.I. | |
| HealthSouth Acquisition Holdings Subsidiary, LLC | DE | |
| HealthSouth Acquisition Holdings, LLC | DE | |
| HealthSouth Arizona Real Estate, LLC | DE | |
| HealthSouth Arkansas Real Estate, LLC | DE | |
| HealthSouth Aviation, LLC | DE | |
| HealthSouth Bakersfield Rehabilitation Hospital, LLC | DE | HealthSouth Bakersfield Rehabilitation Hospital |
| HealthSouth Bryan Holdings, LLC | DE | |
| HealthSouth Bundling Initiatives, LLC | DE | |
| HealthSouth California Real Estate, LLC | DE | |
| HealthSouth Cardinal Hill Rehabilitation Hospital, LLC | DE | Cardinal Hill Rehabilitation Hospital<br>Cardinal Hill Home Care<br>Cardinal Hill Outpatient Services<br>Cardinal Hill Pediatric Services<br>Cardinal Hill Skilled Rehabilitation Unit |
| HealthSouth Clinical Technologies, LLC | DE | |
| HealthSouth Colorado Real Estate, LLC | DE | |
| HealthSouth Deaconess Holdings, LLC | DE | |
| HealthSouth East Valley Rehabilitation Hospital, LLC | DE | HealthSouth East Valley Rehabilitation Hospital |

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|---|---|---|
| HealthSouth GKBJH Holdings, LLC | DE | |
| HealthSouth Harmarville Rehabilitation Hospital, LLC | DE | HealthSouth Harmarville Rehabilitation Hospital<br>Harmarville Transitional Rehabilitation Unit |
| HealthSouth Johnson City Holdings, LLC | DE | |
| HealthSouth Joint Ventures Holdings, LLC | DE | |
| HealthSouth Kansas Real Estate, LLC | DE | |
| HealthSouth Kentucky Real Estate, LLC | DE | |
| HealthSouth Littleton Rehabilitation, LLC | DE | HealthSouth Rehabilitation Hospital of Littleton |
| HealthSouth Martin County Holdings, LLC | DE | |
| HealthSouth Maryland Real Estate, LLC | DE | |
| HealthSouth Massachusetts Real Estate, LLC | DE | |
| HealthSouth Middletown Rehabilitation Hospital, LLC | DE | HealthSouth Rehabilitation Hospital of Middletown |
| HealthSouth Nevada Real Estate, LLC | DE | |
| HealthSouth New Mexico Real Estate, LLC | DE | |
| HealthSouth North Houston GP, LLC | DE | |
| HealthSouth Northern Kentucky Rehabilitation Hospital, LLC | DE | HealthSouth Northern Kentucky Rehabilitation Hospital |
| HealthSouth of Altoona, LLC | DE | |
| HealthSouth of Dothan, Inc. | AL | HealthSouth Rehabilitation Hospital |
| HealthSouth of East Tennessee, LLC | DE | HealthSouth Rehabilitation Hospital |
| HealthSouth of Erie, LLC | DE | HealthSouth Rehabilitation Hospital of Erie |
| HealthSouth of Fort Smith, LLC | DE | HealthSouth Rehabilitation Hospital of Fort Smith<br>HealthSouth Outpatient Rehabilitation<br>HealthSouth Sleep Disorder Center |
| HealthSouth of Nittany Valley, Inc. | DE | HealthSouth Nittany Valley Rehabilitation Hospital<br>HealthSouth Rehabilitation Center of Lewistown<br>HealthSouth Rehabilitation Center of Mifflintown |
| HealthSouth of Phenix City, Inc. | DE | |
| HealthSouth of Sea Pines Limited Partnership | AL | HealthSouth Sea Pines Rehabilitation Hospital<br>Sea Pines Home Health Services |
| HealthSouth of South Carolina, Inc. | DE | HealthSouth Rehabilitation Hospital of Columbia |
| HealthSouth of Spring Hill, Inc. | DE | HealthSouth Rehabilitation Hospital of Spring Hill |
| HealthSouth of Toms River, LLC | DE | HealthSouth Rehabilitation Hospital of Toms River |
| HealthSouth of Treasure Coast, Inc. | DE | HealthSouth Treasure Coast Rehabilitation Hospital |
| HealthSouth of York, LLC | DE | HealthSouth Rehabilitation Hospital of York<br>HealthSouth Rehabilitation Center of Industrial Highway<br>HealthSouth Rehabilitation Center- Shrewsbury<br>HealthSouth-Normandie Drive |
| HealthSouth of Yuma, Inc. | DE | |
| HealthSouth Ohio Real Estate, LLC | DE | |
| HealthSouth Owned Hospitals Holdings, LLC | DE | |
| HealthSouth Pennsylvania Real Estate, LLC | DE | |
| HealthSouth Plano Rehabilitation Hospital, LLC | DE | HealthSouth Plano Rehabilitation Hospital<br>Healthsouth Plano Laboratory for Sleep Disorders<br>Healthsouth Rehabilitation Specialists-Lewisville<br>HealthSouth Rehabilitation Specialists-Plano<br>Pain Management Center |
| HealthSouth Press, LLC | DE | |
| HealthSouth Properties, LLC | DE | |
| HealthSouth Reading Rehabilitation Hospital, LLC | DE | HealthSouth Reading Rehabilitation Hospital<br>HealthSouth Reading Rehabilitation Hospital- Pottstown |
| HealthSouth Real Estate, LLC | DE | |
| HealthSouth Real Property Holding, LLC | DE | |
| HealthSouth Rehabilitation Center of New Hampshire, Inc. | DE | HealthSouth Rehabilitation Hospital |
| HealthSouth Rehabilitation Center, Inc. | SC | HealthSouth Rehabilitation Hospital of Florence |

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|---|---|---|
| HealthSouth Rehabilitation Hospital at Drake, LLC | DE | HealthSouth Rehabilitation Hospital at Drake |
| HealthSouth Rehabilitation Hospital of Abilene, LLC | DE | HealthSouth Rehabilitation Hospital of Abilene |
| HealthSouth Rehabilitation Hospital of Altoona, LLC | DE | HealthSouth Rehabilitation Hospital of Altoona |
| | | HealthSouth Rehabilitation Center - Bedford |
| | | HealthSouth Rehabilitation Center - Ebensburg |
| | | HealthSouth Rehabilitation Center - Meadowbrook Plaza |
| | | HealthSouth Rehabilitation Center - Regency Square |
| | | HealthSouth Rehabilitation Center - Tyrone |
| HealthSouth Rehabilitation Hospital of Arlington, LLC | DE | HealthSouth Rehabilitation Hospital of Arlington |
| HealthSouth Rehabilitation Hospital of Austin, Inc. | DE | HealthSouth Rehabilitation Hospital of Austin |
| | | HealthSouth Wound Care and Hyperbaric Center |
| HealthSouth Rehabilitation Hospital of Beaumont, LLC | DE | HealthSouth Rehabilitation Hospital of Beaumont |
| | | HealthSouth Rehabilitation Center - Beaumont |
| HealthSouth Rehabilitation Hospital of Braintree, LLC | DE | HealthSouth Braintree Rehabilitation Hospital |
| | | HealthSouth Braintree Center for Occupational Health & Rehabilitation |
| | | HealthSouth Braintree Rehabilitation Center at Abington |
| | | HealthSouth Braintree Rehabilitation Center at Brockton |
| | | HealthSouth Braintree Rehabilitation Center at Milford |
| | | HealthSouth Braintree Rehabilitation Center at Plymouth |
| | | HealthSouth Braintree Rehabilitation Center at Taunton |
| | | HealthSouth Braintree Rehabilitation Hospital Outpatient Clinic at Lynnfield |
| | | HealthSouth Braintree Rehabilitation Hospital Pediatric Center |
| | | HealthSouth Braintree Rehabilitation Unit at Framingham |
| HealthSouth Rehabilitation Hospital of Charleston, LLC | SC | HealthSouth Rehabilitation Hospital of Charleston |
| HealthSouth Rehabilitation Hospital of Cincinnati, LLC | DE | |
| HealthSouth Rehabilitation Hospital of Cypress, LLC | DE | HealthSouth Rehabilitation Hospital of Cypress |
| HealthSouth Rehabilitation Hospital of Dallas, LLC | DE | HealthSouth Rehabilitation Hospital of Dallas |
| HealthSouth Rehabilitation Hospital of Dayton, LLC | DE | HealthSouth Rehabilitation Hospital of Dayton |
| HealthSouth Rehabilitation Hospital of Desert Canyon, LLC | DE | HealthSouth Desert Canyon Rehabilitation Hospital |
| HealthSouth Rehabilitation Hospital of Fort Worth, LLC | DE | HealthSouth Rehabilitation Hospital of Fort Worth |
| HealthSouth Rehabilitation Hospital of Fredericksburg, LLC | DE | HealthSouth Rehabilitation Hospital of Fredericksburg |
| HealthSouth Rehabilitation Hospital of Gadsden, LLC | DE | HealthSouth Rehabilitation Hospital of Gadsden |
| HealthSouth Rehabilitation Hospital of Henderson, LLC | DE | HealthSouth Rehabilitation Hospital of Henderson |
| HealthSouth Rehabilitation Hospital of Humble, LLC | DE | HealthSouth Rehabilitation Hospital of Humble |
| HealthSouth Rehabilitation Hospital of Jonesboro, LLC | AR | HealthSouth Rehabilitation Hospital of Jonesboro |
| HealthSouth Rehabilitation Hospital of Largo, LLC | DE | HealthSouth Rehabilitation Hospital of Largo |
| HealthSouth Rehabilitation Hospital of Las Vegas, LLC | DE | HealthSouth Rehabilitation Hospital of Las Vegas |
| HealthSouth Rehabilitation Hospital of Manati, Inc. | DE | HealthSouth Rehabilitation Hospital of Manati |
| HealthSouth Rehabilitation Hospital of Marion County, LLC | DE | HealthSouth Rehabilitation Hospital of Ocala |
| HealthSouth Rehabilitation Hospital of Martin County, LLC | DE | HealthSouth Rehabilitation Hospital at Martin Health |
| HealthSouth Rehabilitation Hospital of Mechanicsburg, LLC | DE | HealthSouth Rehabilitation Hospital of Mechanicsburg |
| HealthSouth Rehabilitation Hospital of Miami, LLC | DE | HealthSouth Rehabilitation Hospital of Miami |
| HealthSouth Rehabilitation Hospital of Midland/Odessa, LLC | DE | HealthSouth Rehabilitation Hospital of Midland/Odessa |
| HealthSouth Rehabilitation Hospital of Modesto, LLC | DE | |
| HealthSouth Rehabilitation Hospital of Montgomery, Inc. | AL | HealthSouth Rehabilitation Hospital of Montgomery |
| HealthSouth Rehabilitation Hospital of New England, LLC | DE | HealthSouth New England Rehabilitation Hospital |
| | | HealthSouth New England Rehabilitation Hospital Outpatient Clinic at Billerica |
| | | HealthSouth New England Rehabilitation Hospital Outpatient Clinic at Framingham |
| | | HealthSouth New England Rehabilitation Unit at Beverly |
| | | HealthSouth New England Rehabilitation Unit at Lowell |
| HealthSouth Rehabilitation Hospital of New Mexico, LLC | DE | HealthSouth Rehabilitation Hospital |

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| HealthSouth Rehabilitation Hospital of Newnan, LLC | DE | HealthSouth Rehabilitation Hospital of Newnan |
| HealthSouth Rehabilitation Hospital of North Houston, LP | TX | HealthSouth Rehabilitation Hospital Vision Park |
| HealthSouth Rehabilitation Hospital of Northern Virginia, LLC | DE | HealthSouth Rehabilitation Hospital of Northern Virginia |
| HealthSouth Rehabilitation Hospital of Petersburg, LLC | DE | HealthSouth Rehabilitation Hospital of Petersburg |
| HealthSouth Rehabilitation Hospital of Richardson, LLC | DE | HealthSouth Rehabilitation Hospital of Richardson |
| HealthSouth Rehabilitation Hospital of Round Rock, LLC | DE | HealthSouth Rehabilitation Hospital of Round Rock |
| HealthSouth Rehabilitation Hospital of San Juan, Inc. | DE | HealthSouth Rehabilitation Hospital of San Juan<br>HealthSouth Outpatient Therapy of San Juan |
| HealthSouth Rehabilitation Hospital of Sarasota, LLC | DE | HealthSouth Rehabilitation Hospital of Sarasota |
| HealthSouth Rehabilitation Hospital of Seminole County, LLC | DE | HealthSouth Rehabilitation Hospital of Altamonte Springs |
| HealthSouth Rehabilitation Hospital of Sewickley, LLC | DE | HealthSouth Rehabilitation Hospital of Sewickley |
| HealthSouth Rehabilitation Hospital of South Austin, LLC | DE | HealthSouth Rehabilitation Hospital of South Austin |
| HealthSouth Rehabilitation Hospital of South Jersey, LLC | DE | HealthSouth Rehabilitation Hospital of Vineland |
| HealthSouth Rehabilitation Hospital of Sugar Land, LLC | DE | HealthSouth Sugar Land Rehabilitation Hospital |
| HealthSouth Rehabilitation Hospital of Tallahassee, LLC | DE | HealthSouth Rehabilitation Hospital of Tallahassee |
| HealthSouth Rehabilitation Hospital of Texarkana, Inc. | DE | HealthSouth Rehabilitation Hospital of Texarkana |
| HealthSouth Rehabilitation Hospital of the Mid-Cities, LLC | DE | HealthSouth Rehabilitation Hospital of the Mid-Cities |
| HealthSouth Rehabilitation Hospital of Utah, LLC | DE | HealthSouth Rehabilitation Hospital of Utah |
| HealthSouth Rehabilitation Hospital of Vintage Park, LLC | DE | HealthSouth Rehabilitation Hospital The Vintage |
| HealthSouth Rehabilitation Hospital of Westerville, LLC | DE | Mount Carmel Rehabilitation Hospital, in partnership with HealthSouth |
| HealthSouth Rehabilitation Hospital of Williamson County, LLC | TN | HealthSouth Rehabilitation Hospital of Franklin |
| HealthSouth Rehabilitation Hospital The Woodlands, Inc. | DE | HealthSouth Rehabilitation Hospital The Woodlands |
| HealthSouth Rehabilitation Institute of San Antonio (RIOSA), Inc. | DE | HealthSouth Rehabilitation Institute of San Antonio (RIOSA) |
| HealthSouth Rehabilitation Institute of Tucson, LLC | AL | HealthSouth Rehabilitation Institute of Tucson |
| HealthSouth Savannah Holdings, LLC | DE | |
| HealthSouth Scottsdale Rehabilitation Hospital, LLC | DE | HealthSouth Scottsdale Rehabilitation Hospital |
| HealthSouth Sea Pines Holdings, LLC | DE | |
| HealthSouth South Carolina Real Estate, LLC | DE | |
| HealthSouth Sunrise Rehabilitation Hospital, LLC | DE | HealthSouth Sunrise Rehabilitation Hospital<br>HealthSouth Sunrise Comprehensive Pain Care Center<br>Outpatient Therapy and Day Rehab |
| HealthSouth Support Companies, LLC | DE | |
| HealthSouth Texas Real Estate, LLC | DE | |
| HealthSouth Tucson Holdings, LLC | DE | |
| HealthSouth Tulsa Holdings, LLC | DE | |
| HealthSouth Utah Real Estate, LLC | DE | |
| HealthSouth Valley of the Sun Rehabilitation Hospital, LLC | DE | HealthSouth Valley of The Sun Rehabilitation Hospital |
| HealthSouth Virginia Real Estate, LLC | DE | |
| HealthSouth Walton Rehabilitation Hospital, LLC | DE | HealthSouth Walton Rehabilitation Hospital |
| HealthSouth West Virginia Real Estate, LLC | DE | |
| HealthSouth Westerville Holdings, LLC | DE | |
| HealthSouth/Deaconess L.L.C. | IN | HealthSouth Deaconess Rehabilitation Hospital |
| HealthSouth/GHS Limited Liability Company | PA | Geisinger HealthSouth Rehabilitation Hospital<br>Geisinger HealthSouth Rehabilitation Center of Berwick<br>Geisinger HealthSouth Rehabilitation Center of Bloomsburg<br>Geisinger HealthSouth Rehabilitation Center of Bucknell<br>Geisinger HealthSouth Rehabilitation Center of Danville<br>Geisinger HealthSouth Rehabilitation Center of Milton<br>Geisinger HealthSouth Rehabilitation Center of Selinsgrove<br>Geisinger HealthSouth Rehabilitation - Hospital Outpatient Center |
| HealthSouth/Maine Medical Center Limited Liability Company | ME | New England Rehabilitation Hospital of Portland, a Joint Venture of Maine Medical Center and HealthSouth |

| HealthSouth/Methodist Rehabilitation Hospital Limited Partnership | TN | HealthSouth Rehabilitation Hospital of Memphis<br>HealthSouth Rehabilitation Hospital-North |
|---|---|---|
| K.C. Rehabilitation Hospital, Inc. | DE | MidAmerica Rehabilitation Hospital |
| Kansas Rehabilitation Hospital, Inc. | DE | Kansas Rehabilitation Hospital |
| Lakeshore System Services of Florida, Inc. | FL | HealthSouth Emerald Coast Rehabilitation Hospital |
| Lakeview Rehabilitation Group Partners | KY | HealthSouth Lakeview Rehabilitation Hospital of Central Kentucky<br>HealthSouth Lakeview Outpatient |
| New England Rehabilitation Management Co., LLC | NH | |
| New England Rehabilitation Services of Central Massachusetts, Inc. | MA | Fairlawn Rehabilitation Hospital |
| Northwest Arkansas Rehabilitation Associates | AR | HealthSouth Rehabilitation Hospital, a Partner with Washington Regional |
| Piedmont HealthSouth Rehabilitation, LLC | SC | HealthSouth Rehabilitation Hospital of Rock Hill |
| Plano Health Associates Limited Partnership | DE | |
| Print Promotions Group, LLC | DE | |
| Quillen Rehabilitation Hospital of Johnson City, LLC | DE | Quillen Rehabilitation Hospital, a joint venture of Mountain States Health Alliance and HealthSouth |
| Rebound, LLC | DE | HealthSouth Cane Creek Rehabilitation Hospital<br>HealthSouth Chattanooga Rehabilitation Hospital<br>HealthSouth Lakeshore Rehabilitation Hospital<br>HealthSouth Rehabilitation Hospital of Huntington<br>HealthSouth Rehabilitation Hospital of North Alabama |
| Rehab Concepts Corp. | DE | |
| Rehabilitation Hospital Corporation of America, LLC | DE | HealthSouth Chesapeake Rehabilitation Hospital<br>HealthSouth Inpatient Rehabilitation Unit at Camden-Clark Memorial Hospital<br>HealthSouth Outpatient Therapy Services<br>HealthSouth Rehabilitation Hospital of Virginia<br>HealthSouth Southern Hills Rehabilitation Hospital<br>HealthSouth Western Hills Regional Rehabilitation Hospital<br>HealthSouth Western Hills Outpatient |
| Rehabilitation Hospital of Colorado Springs, Inc. | DE | HealthSouth Rehabilitation Hospital of Colorado Springs |
| Rehabilitation Hospital of Phenix City, L.L.C. | AL | Regional Rehabilitation Hospital |
| Rehabilitation Hospital of Plano, LLC | DE | |
| Rehabilitation Institute Of Western Massachusetts, LLC | MA | HealthSouth Rehabilitation Hospital of Western Massachusetts |
| Reliant Blocker Corp. | DE | |
| Rusk Rehabilitation Center, L.L.C. | MO | Rusk Rehabilitation Center, a Joint Venture of HealthSouth and the University of Missouri - Columbia |
| Saint Barnabas/HealthSouth Rehabilitation Center, L.L.C. | NJ | HealthSouth Rehabilitation Hospital of Tinton Falls |
| Savannah Rehabilitation Hospital, LLC | DE | Rehabilitation Hospital of Savannah An Affiliate of HealthSouth |
| Sherwood Rehabilitation Hospital, Inc. | DE | |
| Southern Arizona Regional Rehabilitation Hospital, L.P. | DE | HealthSouth Rehabilitation Hospital of Southern Arizona |
| St. John HealthSouth Rehabilitation Hospital, LLC | DE | St. John Rehabilitation Hospital, affiliated with HealthSouth |
| St. Joseph HealthSouth Rehabilitation Hospital, LLC | DE | |
| Tarrant County Rehabilitation Hospital, LLC | TX | HealthSouth City View Rehabilitation Hospital |
| Tyler Rehab Associates, L.P. | DE | Trinity Mother Frances Rehabilitation Hospital, Affiliated with HealthSouth |
| Tyler Rehabilitation Hospital, Inc. | TX | |
| University of Virginia/HealthSouth L.L.C. | VA | UVA-HealthSouth Rehabilitation Hospital<br>UVa-HealthSouth Sports Medicine & Rehabilitation Center |
| Van Matre Rehabilitation Center LLC | IL | Van Matre HealthSouth Rehabilitation Hospital |
| Vanderbilt Stallworth Rehabilitation Hospital, L.P. | TN | Vanderbilt Stallworth Rehabilitation Hospital |
| Wellmont/HealthSouth IRF, LLC | DE | The Rehabilitation Hospital of Southwest Virginia |
| West Virginia Rehabilitation Hospital, Inc. | WV | HealthSouth Mountain View Regional Rehabilitation Hospital |

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|---|---|---|
| | | HealthSouth Mountainview at Bridgeport |
| Western Medical Rehab Associates, L.P. | DE | HealthSouth Tustin Rehabilitation Hospital |
| Western Neuro Care, Inc. | DE | |
| Yuma Rehabilitation Hospital, L.L.C. | AZ | Yuma Rehabilitation Hospital, a Partnership of HealthSouth & YRMC |
| | | |
| HealthSouth Home Health Holdings, Inc. | DE | |
| HealthSouth Home Health Corporation | DE | |
| | | |
| A & B Home Health Solutions, LLC | CT | Encompass Home Health of New England |
| AHM Action Home Health, LP | TX | Alliance Home Health of Benton County<br>Alliance Home Health of Washington County<br>Encompass Home Health of East Texas<br>Encompass Home Health of Texarkana |
| AHM Texas GP, LLC | DE | |
| AHM Texas LP, Inc. | DE | |
| Abba Home Health, L.P. | TX | Encompass Home Health of Lubbock<br>Encompass Home Health of the Panhandle<br>Encompass Hospice of the Panhandle |
| Advanced Homecare Holdings, Inc. | DE | |
| Advanced Homecare Management, Inc. | DE | Encompass Home Health<br>Encompass Home Health and Hospice |
| Advantage Hospice, Inc. | TX | |
| Apex Hospice LLC | TX | Encompass Hospice of DFW |
| Best Home Care LP | TX | Encompass Home Health of the Permian Basin |
| CareServices of Bethesda, LLC | FL | |
| CareServices of the Treasure Coast, LLC | FL | |
| CareSouth Health System, Inc. | DE | |
| CareSouth HHA Holdings of Columbus, LLC | GA | |
| CareSouth HHA Holdings of Dothan, LLC | GA | |
| CareSouth HHA Holdings of Gainesville, LLC | GA | |
| CareSouth HHA Holdings of Greensboro, LLC | GA | |
| CareSouth HHA Holdings of Lexington, LLC | GA | |
| CareSouth HHA Holdings of Middle Georgia, LLC | GA | |
| CareSouth HHA Holdings of North Florida, LLC | GA | |
| CareSouth HHA Holdings of Panama City, LLC | FL | |
| CareSouth HHA Holdings of Richmond, LLC | VA | |
| CareSouth HHA Holdings of South Carolina, LLC | GA | |
| CareSouth HHA Holdings of Tallahassee, LLC | FL | |
| CareSouth HHA Holdings of the Bay Area, LLC | GA | |
| CareSouth HHA Holdings of the Treasure Coast, LLC | GA | CareServices of Jupiter Medical Center |
| CareSouth HHA Holdings of Valley, LLC | GA | |
| CareSouth HHA Holdings of Virginia, LLC | GA | |
| CareSouth HHA Holdings of Washington, LLC | GA | |
| CareSouth HHA Holdings of Western Carolina, LLC | GA | |
| CareSouth HHA Holdings of Winchester, LLC | GA | |
| CareSouth HHA Holdings, LLC | GA | |
| CareSouth Hospice, LLC | GA | |
| CareSouth Private Duty Holdings, LLC | GA | |
| CareSouth Private Duty of Georgia, LLC | GA | |
| CareSouth Private Duty of South Carolina, LLC | GA | |
| Continental Home Care, Inc. | OK | Encompass Home Health of Eastern Oklahoma |
| CS Health & Wellness, LLC | GA | |
| DRC Health Systems, L.P. | TX | Encompass Home Health of Corpus Christi |

| | | |
|---|---|---|
| | | Encompass Home Health of Houston<br>Encompass Hospice of Houston |
| Day-By-Day Staff Relief, Inc. | OK | Encompass Home Health of Kansas<br>Encompass Home Health of Kansas City<br>Encompass Home Health of Northeast Oklahoma<br>Encompass Hospice of Kansas City<br>Encompass Hospice of Kansas<br>Encompass Private Duty of Kansas |
| Dosik, Inc. | TX | Encompass Home Health of Livingston |
| EHHI Holdings, Inc. | DE | |
| Encompass Home Health of Austin, LLC | TX | Austin Home Health<br>Encompass Home Health of Austin<br>Encompass Home Health of Fredericksburg<br>Encompass Hospice of Austin |
| Encompass Home Health of Colorado, LLC | CO | Encompass Home Health of Colorado |
| Encompass Home Health of DFW, LLC | TX | Encompass Home Health of DFW |
| Encompass Home Health of New England, LLC | DE | |
| Encompass Home Health of the Mid Atlantic, LLC | VA | Encompass Home Health of Maryland<br>Encompass Home Health of Pennsylvania<br>Encompass Home Health of Virginia<br>Encompass Home Health of Western Virginia<br>Encompass Hospice of Virginia |
| Encompass Home Health of the Southeast, LLC | FL | Encompass Home Health of Florida |
| Encompass Home Health of the West, LLC | ID | Encompass Home Health and Hospice of Utah<br>Encompass Home Health of Arizona<br>Encompass Home Health of Idaho<br>Encompass Home Health of Nevada<br>Encompass Home Health of Southern Utah |
| Encompass Hospice of the West, LLC | ID | Encompass Hospice of Idaho<br>Encompass Hospice of Utah<br>Encompass Hospice of Southern Utah |
| Encompass of Fort Worth, LP | TX | Encompass Home Health of North Central Texas<br>Encompass Home Health of Wichita Falls |
| Encompass of West Texas, LP | TX | Encompass Home Health of West Texas |
| Excella Associates, L.L.C. | MA | |
| Excella Healthcare, Inc. | MA | Excella Healthcare an Encompass Company |
| Excella Home Health Agency, LLC | MA | Encompass Home Health of New England |
| Excella Homecare, Inc. | MA | Encompass Home Health of New England |
| First Choice Children's Homecare, LP | TX | Encompass Home Health Pediatric Services |
| Guardian Home Care, Inc. | ID | Encompass Home Health & Hospice of Idaho<br>Encompass Home Health of Oregon |
| Hallmark Homecare, L.P. | TX | Encompass Home Health of Bryan/College Station<br>Encompass Home Health of Central Texas<br>Encompass Hospice of Bryan/College Station<br>Family Home Health |
| HealthCare Innovations Holdings, L.L.C. | TX | |
| HealthCare Innovations of Oklahoma, L.L.C. | TX | Encompass Home Health of Southeast Oklahoma<br>Encompass Hospice of Southeast Oklahoma |
| HealthCare Innovations of Western Oklahoma, L.L.C. | TX | Encompass Home Health of Western Oklahoma |
| HealthCare Innovations-Travertine Health Services, L.L.C. | TX | Encompass Home Health of Central Oklahoma |
| Idaho Homecare Holdings, Inc. | ID | |
| Orion Homecare, LLC | ID | Encompass Home Health of Western Idaho |
| Preferred Home Health, L.P. | TX | Encompass Home Health of Southeast Texas |
| TH of San Antonio, LLC | TX | Encompass Hospice of Central Texas |

| Texas Senior Care, L.P. | TX | Encompass Home Health of Greater Dallas<br>Encompass Home Health of Northeast Texas |
|---|---|---|
| WellCare, Inc. | NM | Encompass Home Health of New Mexico<br>Encompass Hospice of New Mexico |
| Wellmark Healthcare Services of El Paso, Inc. | TX | Encompass Home Health of El Paso |

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-202552), Form S-4(No. 333-209178) and Form S-8 (Nos. 333-141702, 333-157445 and 333-175981) of HealthSouth Corporation of our report dated February 24, 2016 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Birmingham, Alabama
February 24, 2016

**Exhibit 31.1**

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jay Grinney, certify that:

1. I have reviewed this Annual Report on Form 10-K of HealthSouth Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2016

By: /s/ JAY GRINNEY

Name: Jay Grinney

Title: President and Chief Executive Officer

**Exhibit 31.2**

# CERTIFICATION OF CHIEF FINANCIAL OFFICER
# PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Douglas E. Coltharp, certify that:

1. I have reviewed this Annual Report on Form 10-K of HealthSouth Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2016

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

# CERTIFICATE OF CHIEF EXECUTIVE OFFICER
# PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
# PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HealthSouth Corporation on Form 10-K for the period ended December 31, 2015 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Grinney, President and Chief Executive Officer of HealthSouth Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the "2002 Act"), that to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HealthSouth Corporation.

Date: February 24, 2016

By: /s/ JAY GRINNEY

Name: Jay Grinney

Title: President and Chief Executive Officer

A signed original of this written statement has been provided to HealthSouth Corporation and will be retained by HealthSouth Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by HealthSouth Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that HealthSouth Corporation specifically incorporates it by reference.

**Exhibit 32.2**

# CERTIFICATE OF CHIEF FINANCIAL OFFICER
# PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
# PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of HealthSouth Corporation on Form 10-K for the period ended December 31, 2015 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas E. Coltharp, Executive Vice President and Chief Financial Officer of HealthSouth Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the “2002 Act”), that to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of HealthSouth Corporation.

Date: February 24, 2016

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement has been provided to HealthSouth Corporation and will be retained by HealthSouth Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by HealthSouth Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that HealthSouth Corporation specifically incorporates it by reference.