HEALTHSOUTH CORP
Form DEF 14A
March 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under Rule 14a-12

HealthSouth Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration State No.:

(3) Filing Party:

(4) Date Filed:

March 27, 2008

Dear Fellow Stockholder:

I am pleased to invite you to attend our 2008 annual meeting of stockholders of HealthSouth Corporation, to be held on Thursday, May 8, 2008, at 11:00 a.m., central time, at the Cahaba Grand Conference Center, located at our headquarters at 3660 Grandview Parkway (formerly One HealthSouth Parkway), Birmingham, Alabama.

We will review our 2007 performance and discuss our outlook for 2008, and respond to any questions you may have. We will also consider the items of business described in the Notice of Annual Meeting of Stockholders and Internet Availability of Proxy Materials and in the Proxy Statement accompanying this letter. The Proxy Statement contains important information about the matters to be voted on and the process for voting, along with information about HealthSouth, its management and its directors.

Every stockholder's vote is important to us. Even if you plan to attend the Annual Meeting in person, *please promptly vote* by submitting your proxy by phone, by internet or by mail. The "Commonly Asked Questions" section of the Proxy Statement and the enclosed proxy card contain detailed instructions for submitting your proxy.

On behalf of the directors, management and employees of HealthSouth, thank you for your continued support of and ownership in our Company.

Sincerely,

/s/ JON F. HANSON

Jon F. Hanson

Chairman of the Board of Directors

HEALTHSOUTH CORPORATION

Notice of Annual Meeting of Stockholders

and

Internet Availability of Proxy Materials

TIME	11:00 a.m., central time, on Thursday, May 8, 2008
PLACE	Cahaba Grand Conference Center 3660 Grandview Parkway (formerly One HealthSouth Parkway) Birmingham, Alabama 35243 Directions to the annual meeting are available by calling investor relations at (205) 967-7116.
ITEMS OF BUSINESS	(1) To elect ten directors to the board of directors to serve until our 2009 annual meeting of stockholders. • **The Board of Directors recommends a vote FOR each nominee.** (2) To ratify the appointment by the Audit Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm. • **The Board of Directors recommends a vote FOR ratification.** (3) To approve the HealthSouth 2008 Equity Incentive Plan. • **The Board of Directors recommends a vote FOR approval.** (4) To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement.
RECORD DATE	You can vote if you are a stockholder of record of the Company on March 19, 2008.
PROXY VOTING	Your vote is important. Please vote in one of these ways:

(1) Via internet: Go to http://www.proxyvoting.com/hls and follow the instructions. You will need to enter the control number printed on your proxy card;

(2) By telephone: Call toll-free 1-866-540-5760 and follow the instructions. You will need to enter the control number printed on your proxy card;

(3) In writing: Complete, sign, date and promptly return your proxy card in the enclosed envelope; or

(4) Submit a ballot in person at the annual meeting of stockholders.

Important Notice Regarding the Availability of Proxy Materials

For the Stockholder Meeting to be Held on May 8, 2008

HealthSouth's Proxy Statement on Schedule 14A, form of proxy card, and 2007 Annual Report (including the 2007 Annual Report on Form 10-K) are available at: http://bnymobular.net/bnymellon/hls.

/S/ JOHN P. WHITTINGTON
John P. Whittington
Corporate Secretary

Birmingham, Alabama
March 27, 2008

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HEALTHSOUTH CORPORATION

PROXY STATEMENT

INTRODUCTION

The annual meeting of stockholders of HealthSouth Corporation, a Delaware corporation ("HealthSouth," or also "we," "us," "our," or the "Company"), will be held on May 8, 2008, beginning at 11:00 a.m., central time, at our principal executive offices located at 3660 Grandview Parkway (formerly One HealthSouth Parkway), Birmingham, Alabama 35243. We encourage all of our stockholders to vote at the annual meeting, and we hope the information contained in this document will help you decide how you wish to vote at the annual meeting.

COMMONLY ASKED QUESTIONS

Why did I receive these proxy materials?

We are furnishing this proxy statement in connection with the solicitation by HealthSouth's board of directors of proxies to be voted at our 2008 annual meeting and at any adjournment or postponement. At our annual meeting, stockholders will act upon the following proposals:

- To elect ten directors to the board of directors to serve until our 2009 annual meeting of stockholders;
- To ratify the appointment by the Audit Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm;
- To approve the HealthSouth 2008 Equity Incentive Plan; and
- To transact such other business as may properly come before the 2008 annual meeting of stockholders and any adjournment or postponement.

These proxy solicitation materials are being sent to our stockholders on or about March 28, 2008.

What do I need to attend the meeting?

Attendance at the 2008 annual meeting of stockholders is limited to stockholders. Registration will begin at 10:00 a.m. central time and each stockholder will be asked to present a valid form of personal identification. Cameras, recording devices and other electronic devices will not be permitted at the meeting. Additional rules of conduct regarding the meeting will be provided at the meeting.

Who is entitled to vote at the meeting?

The board of directors has determined that those stockholders who are recorded in our record books as owning shares of HealthSouth as of the close of business on March 19, 2008, are entitled to receive notice of and to vote at the annual meeting of stockholders. As of the record date, there were 87,861,271 shares of HealthSouth common stock issued and outstanding and 400,000 shares of 6.50% Series A Convertible Perpetual Preferred Stock issued and outstanding. Our preferred stock is convertible at the option of the holder at any time into shares of common stock at an initial conversion rate of 32.7869 shares of common stock per share of preferred stock, or an aggregate of 13,114,760 shares of common stock. Your shares may be (1) held directly in your name as the stockholder of record or (2) held for you as the beneficial owner through a stockbroker, bank or other nominee, or both. Our common stock and our preferred stock are our only classes of outstanding voting securities. Each share of common stock is entitled to one vote on each matter properly brought before the annual meeting. Each share of preferred stock is entitled to one vote on each matter properly brought before the annual meeting voting together with the common stock.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most of our stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Mellon Investor Services, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent directly to you by us. As the stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the meeting. We have enclosed a proxy card for you to use.

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, bank, or nominee which is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to attend the meeting. However, because you are not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares. Your broker, bank, or nominee has enclosed or provided a voting instruction card for you to use in directing the broker or nominee how to vote your shares. If you do not provide the stockholder of record with voting instructions, your shares may constitute broker non-votes. The effect of broker non-votes is more specifically described in "What vote is required to approve each item?" below.

How can I vote my shares in person at the meeting?

Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. Submitting your proxy by telephone, by internet or by mail will in no way limit your right to vote at the Annual Meeting if you later decide to attend in person.

Shares held beneficially in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

Even if you currently plan to attend the annual meeting, we recommend that you also submit your proxy as described below so that your vote will be counted if you later decide not to attend the meeting.

How can I vote my shares without attending the meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker, bank, or nominee.

Please refer to the summary instructions below and those included on your proxy card or, for shares held in street name, the voting instruction card included by your broker, bank, or nominee. The internet and telephone voting procedures established for HealthSouth stockholders of record are designed to authenticate your identity, to allow you to give your voting instructions, and to confirm those instructions have been properly recorded. Internet and telephone voting for stockholders of record will be available 24 hours a day, and will close at 11:59 p.m. eastern time on May 7, 2008. The availability of internet and telephone voting for beneficial owners will depend on the voting processes of your broker, bank or other holder of record. Therefore, we recommend that you follow the voting instructions you receive.

- BY INTERNET – If you have internet access, you may submit your proxy from any location in the world by following the "internet" instructions on the proxy card. Please have your proxy card in hand when accessing the web site.
- BY TELEPHONE – If you live in the United States, Puerto Rico, or Canada, you may submit your proxy by following the "telephone" instructions on the proxy card. Please have your proxy card in hand when you call.
- BY MAIL – You may do this by marking, signing, and dating your proxy card or, for shares held in street name, the voting instruction card included by your broker, bank, or nominee and mailing it in the accompanying enclosed, pre-addressed envelope. If you provide specific voting instructions, your shares will be voted as you instruct. If the pre-addressed envelope is missing, please mail your completed proxy card to Mellon Investor Services, Proxy Processing, P.O. Box 3500, Hackensack, NJ 07606-3500.

If you cast your vote in any of the ways set forth above, your shares will be voted in accordance with your voting instructions unless you validly revoke your proxy. We do not currently anticipate that any other matters will be presented for action at the annual meeting. If any other matters are properly presented for action, the persons named on your proxy will vote your shares on these other matters in their discretion, under the discretionary authority you have granted to them in your proxy.

Can I access the proxy statement and annual report on the internet?

Yes. This proxy statement, the form of proxy card and the 2007 Annual Report (which includes our 2007 Form 10-K) are available at http://bnymobular.net/bnymellon/hls. If you are a stockholder of record and would like to access future Company proxy statements and annual reports electronically instead of receiving paper copies in the mail, there are several ways to do this. You can mark the appropriate box on your proxy card or follow the instructions if you vote by telephone or the internet. If you choose to access future proxy statements and annual reports on the Internet, you will receive a proxy card in the mail next year with instructions containing the internet address for those materials. Your choice will remain in effect until you advise us otherwise. If you have internet access, we hope you make this choice. Receiving future annual reports and proxy statements via the internet will be simpler for you, will save the Company money and is friendlier to the environment.

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 ("2007 Form 10-K") and the proxy materials are also available without charge from our Company website at www.healthsouth.com under the heading "Who We Are/Investor Information." **The 2007 Form 10-K and the proxy materials are also available in print to stockholders without charge and upon request, addressed to HealthSouth Corporation, 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, Attention: Corporate Secretary.**

New Securities and Exchange Commission rules permit the Company to provide stockholders with proxy materials electronically instead of in paper form, even if they have not made an election to receive the material electronically. If we decide to take advantage of this electronic delivery alternative in the future, stockholders will receive a Notice of Internet Availability of Proxy Materials with instructions on how to access the material on the internet.

Can I change my vote after I submit my proxy?

Yes. Even after you have submitted your proxy, you may change your vote at any time prior to the close of voting at the annual meeting by:

- filing with our Corporate Secretary at 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243 a signed, original written notice of revocation dated later than the proxy you submitted,
- submitting a duly executed proxy bearing a later date,
- voting by telephone or internet on a later date, or
- attending the annual meeting and voting in person.

In order to revoke your proxy, we must receive an original notice of revocation of your proxy at the address above sent by U.S. mail or overnight courier. You may not revoke your proxy by any other means. If you grant a proxy, you are not prevented from attending the annual meeting and voting in person. However, your attendance at the annual meeting will not by itself revoke a proxy you have previously granted; you must vote in person at the annual meeting to revoke your proxy.

If your shares are held in a stock brokerage account or by a bank or other nominee, you may revoke your proxy by following the instructions provided by your broker, bank, or nominee.

All shares that have been properly voted and not revoked will be voted at the annual meeting.

What is "householding" and how does it affect me?

In accordance with notices previously sent to stockholders, HealthSouth is delivering one annual report and proxy statement in one envelope addressed to all stockholders who share a single address unless they have notified us they wish to "opt out" of the program known as "householding." Under this procedure, stockholders of record who have the same address and last name receive only one copy of proxy materials. Householding is intended to reduce our printing and postage costs. WE WILL DELIVER A SEPARATE COPY OF THE ANNUAL REPORT OR PROXY STATEMENT PROMPTLY UPON WRITTEN OR ORAL REQUEST. You may request a separate copy by contacting the office of investor relations at 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, or by calling (205) 967-7116.

If you are a beneficial stockholder and you choose not to have the aforementioned disclosure documents sent to a single household address as described above, you must "opt-out" by writing to Broadridge Financial Solutions, Inc., Householding Department, 51 Mercedes Way, Edgewood, New York 11717 or by calling 1-800-542-1061, and we will cease householding all such disclosure documents within 30 days. If we do not receive instructions to remove your account(s) from this service, your account(s) will continue to be householded until we notify you otherwise. If you own shares in nominee name (such as through a broker), information regarding householding of disclosure documents should have been forwarded to you by your broker.

Is there a list of stockholders entitled to vote at the meeting?

A complete list of stockholders entitled to vote at the meeting will be open for examination by HealthSouth stockholders for any purpose germane to the meeting, during regular business hours, for ten days prior to the meeting, at the meeting place.

What constitutes a quorum to transact business at the meeting?

Before any business may be transacted at the annual meeting, a quorum must be present. The presence at the annual meeting, in person or by proxy, of the holders of a majority of the shares of HealthSouth capital stock outstanding and entitled to vote on the record date will constitute a quorum. At the close of business on the record date, 87,861,271 shares of our common stock and 400,000 shares of our preferred stock were issued and outstanding. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the annual meeting for purposes of a quorum.

What is the recommendation of the board of directors?

Our board of directors recommends a vote:

- **"FOR" the election of each of our ten nominees to the board of directors;**
- **"FOR" the ratification of the appointment of PricewaterhouseCoopers LLP as HealthSouth's independent registered public accounting firm for 2008; and**
- **"FOR" the approval of the HealthSouth 2008 Equity Incentive Plan.**

With respect to any other matter that properly comes before the annual meeting, the proxy holders will vote in accordance with their judgment on such matter.

What vote is required to approve each item?

There are different vote requirements for the proposals:

- Each nominee for director named in Proposal One will be elected if the votes for the nominee exceed 50% of the number of votes cast with respect to such nominee. Votes cast with respect to a nominee will include votes to withhold authority but will exclude abstentions and broker non-votes.
- The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm will be approved if the votes cast for the proposal exceed those cast against the proposal. Abstentions and broker non-votes will not be counted for or against the proposal.
- The approval of the HealthSouth 2008 Equity Incentive Plan will be approved if the votes cast for such plan exceed those cast against the proposal. Abstentions and broker non-votes will not be counted for or against the proposal.

A “broker non-vote” occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. If you are a beneficial owner, your bank, broker or other holder of record is permitted to vote your shares on the election of directors even if the record holder does not receive voting instructions from you. Absent instructions from you, the record holder may not vote on any “non-discretionary” matter which includes any stockholder proposal. Without your voting instructions, a broker non-vote will occur. An “abstention” will occur at the annual meeting if your shares are deemed to be present at the annual meeting, either because you attend the annual meeting or because you have properly completed and returned a proxy, but you do not vote on any proposal or other matter which is required to be voted on by our stockholders at the annual meeting. You should consult your broker if you have questions about this.

The affirmative vote of at least a majority of our issued and outstanding shares present, in person or by proxy, and entitled to vote at the annual meeting will be required to approve any stockholder proposal validly presented at a meeting of stockholders. Under applicable Delaware law, in determining whether any stockholder proposal has received the requisite number of affirmative votes, abstentions and broker non-votes will be counted and will have the same effect as a vote against any stockholder proposal. There are no dissenters’ rights of appraisal in connection with any stockholder vote to be taken at the annual meeting.

What does it mean if I receive more than one proxy or voting instruction card?

It means your shares of common stock and preferred stock are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Where can I find the voting results of the meeting?

We will announce preliminary voting results at the meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of 2008.

Who will count the votes?

A representative of Mellon Investor Services, LLC, our transfer agent, will tabulate the votes and act as the inspector of election.

Who will pay for the cost of this proxy solicitation?

We are making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing, and distributing these proxy materials. If you choose to access the proxy materials or vote over the internet, however, you are responsible for internet access charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone, or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. To assist us in soliciting proxies, we have retained Mellon Investor Services, LLC, and we have agreed to pay Mellon Investor Services, LLC a fee of $9,000, and all reasonable out-of-pocket expenses incurred by it in connection with the provision of its proxy soliciting services. We will request banks, brokers, nominees, custodians, and other fiduciaries who hold shares of HealthSouth stock in street name, to forward these proxy solicitation materials to the beneficial owners of those shares and we will reimburse them the reasonable out-of-pocket expenses they incur in doing so.

Who should I contact if I have questions?

If you have any questions, need additional copies of the proxy materials, or need assistance in voting your shares, please call the firm assisting us in the solicitation of proxies:

Mellon Investor Services, LLC

480 Washington Boulevard

Jersey City, New Jersey 07310-1900

Telephone: 888-261-6784

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THE DELIVERY OF THIS PROXY STATEMENT WILL, UNDER NO CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE OF THIS PROXY STATEMENT.

ITEMS OF BUSINESS REQUIRING YOUR VOTE

Proposal 1 – Election of Directors

Director Nominees

Our board of directors currently consists of ten members. Our board of directors proposes that each of the ten nominees listed below be elected at the annual meeting as members of our board of directors, to serve until our 2009 annual meeting of stockholders. Each director nominee named in Proposal One will be elected if the votes for the nominee exceed 50% of the number of votes cast with respect to such nominee. Votes cast with respect to a nominee will include votes to withhold authority but will exclude abstentions and broker non-votes. If a nominee becomes unable or unwilling to accept the nomination or election, the persons designated as proxies will be entitled to vote for any other person designated as a substitute nominee by our board of directors. We have no reason to believe that any of the following nominees will be unable to serve. Information relating to each of the director nominees proposed for election by our board of directors is set forth below.

Name	Age	Position	Date Became Director
Edward A. Blechschmidt *	55	Director; Member of Audit Committee (Chairman)	1/31/2004
John W. Chidsey *	45	Director; Member of Audit Committee	10/2/2007
Donald L. Correll *	57	Director; Member of Audit Committee and of Finance Committee (Chairman)	6/29/2005
Yvonne M. Curl *	53	Director; Member of Compensation Committee and of Compliance/Quality of Care Committee	11/18/2004
Charles M. Elson *	48	Director; Member of Nominating/Corporate Governance Committee (Chairman)	9/9/2004
Jay Grinney	57	Director; President and Chief Executive Officer	5/10/2004
Jon F. Hanson *	71	Director; Chairman of the Board of Directors; Member of Finance Committee and of Nominating/Corporate Governance Committee	9/17/2002
Leo I. Higdon, Jr. *	61	Director; Member of Compensation Committee (Chairman) and of Finance Committee	8/17/2004
John E. Maupin, Jr. *	61	Director; Member of Nominating/Corporate Governance Committee and of Compliance/Quality of Care Committee (Chairman)	8/17/2004
L. Edward Shaw, Jr. *	63	Director; Member of Compensation Committee and of Compliance/Quality of Care Committee	6/29/2005

* Denotes independent director.

There are no arrangements or understandings known to us between any of the nominees listed above and any other person pursuant to which a director was or is to be selected as a director or nominee, other than any arrangements or understandings with directors or officers of HealthSouth acting solely in their capacities as such.

Edward A. Blechschmidt

Mr. Blechschmidt was acting chief executive officer for Novelis, Inc. from December 2006 to May 2007. He was chairman, chief executive officer and president of Gentiva Health Services, Inc., a leading provider of specialty pharmaceutical and home health care services, from March 2000 to June 2002. From March 1999 to March 2000, Mr. Blechschmidt served as chief executive officer and a director of Olsten Corporation. He served as president of Olsten Corporation from October 1998 to March 1999. He also served as president and chief executive officer of Siemens Nixdorf Americas and Siemens' Pyramid Technology from July 1996 to October 1998. Prior to Siemens, he spent more than 20 years with Unisys Corp., including serving as its chief financial officer. Mr. Blechschmidt serves as a director of Lionbridge Technologies, Inc. and Columbia Laboratories, Inc.

John W. Chidsey

Mr. Chidsey has served as the chief executive officer of Burger King Holdings, Inc. and a member of its board of directors since April 2006. From September 2005 until April 2006, he served as president and chief financial officer. He served as president, North America from June 2004 to September 2005, and as executive vice president and chief administration and financial officer from March 2004 until June 2004. Prior to joining Burger King, Mr. Chidsey served as chairman and chief executive officer for two corporate divisions of Cendant Corporation from January 1996 to March 2003. Prior to joining Cendant, Mr. Chidsey served as the director of finance of Pepsi-Cola Eastern Europe and the chief financial officer of PepsiCo World Trading Co., Inc. He serves on the Board of Trustees for Davidson College in Davidson, North Carolina.

Donald L. Correll

Effective April 17, 2006, Mr. Correll began serving as president and chief executive officer of American Water Works Company, Inc., the largest and most geographically diversified provider of water services in North America. Between August 2003 and April 2006, Mr. Correll served as president and chief executive officer of Pennichuck Corporation, a publicly traded holding company which, through its subsidiaries, provides public water supply services, certain water related services, and certain real estate activities, including property development and management. From 1991 to 2001, Mr. Correll served as chairman, president and chief executive officer of United Water Resources, Inc., a water and wastewater utility company. Prior to 1991, Mr. Correll spent nearly 15 years with United Water, including serving as its chief financial officer. From 2001 to 2003, Mr. Correll served as an independent advisor to water service and investment firms on issues relating to marketing, acquisitions, and investments in the water services sector. Mr. Correll served as a director of Interchange Financial Services from 1994 to 2007. Mr. Correll currently serves as a Commissioner of the New Jersey Water Supply Authority and a member of the USEPA Environmental Financial Advisory Board.

Yvonne M. Curl

Ms. Curl is a former vice president and chief marketing officer of Avaya, Inc., which offices she held from October 2000 through April 2004. Before joining Avaya, Ms. Curl was employed by Xerox Corporation beginning in 1976, where she held a number of middle and senior management positions in sales, marketing and field operations, culminating with her appointment to corporate vice president. Ms. Curl currently serves as a director of Nationwide Mutual Insurance Company and Charming Shoppes, Inc.

Charles M. Elson

Mr. Elson holds the Edgar S. Woolard, Jr., chair in corporate governance and has served as the director of the John L. Weinberg Center for Corporate Governance at the University of Delaware since 2000. Mr. Elson has served on the National Association of Corporate Directors' Commissions on Director Compensation, Executive Compensation and the Role of the Compensation Committee, Director Professionalism, CEO Succession, Audit Committees, Governance Committee, Strategic Planning, and Director Evaluation, was a member of its Best Practices Council on Coping with Fraud and Other Illegal Activity, and presently serves on that organization's Advisory Council. In addition, Mr. Elson serves as vice chairman of the American Bar Association's Committee on Corporate Governance and was a member of the American Bar Association's Committee on Corporate Laws. Mr. Elson also serves as a director of AutoZone, Inc. Mr. Elson has been Of Counsel to the law firm of Holland & Knight LLP from 1995 to the present.

Jay Grinney

Mr. Grinney was named our President and Chief Executive Officer on May 10, 2004. From June 1990 to May 2004, Mr. Grinney served in a number of senior management positions with HCA, Inc., or its predecessor companies, in particular, serving as president of HCA's Eastern Group from May 1996 to May 2004, president of the Greater Houston Division from October 1993 to April 1996 and as chief operating officer of the Houston Region from November 1992 to September 1993. Before joining HCA, Mr. Grinney held several executive positions during a nine year career at the Methodist Hospital System in Houston, Texas.

Jon F. Hanson

Mr. Hanson is the chairman and founder of The Hampshire Companies and has over 48 years of experience in the real estate industry. Mr. Hanson was named non-executive Chairman of the Board of HealthSouth, effective October 1, 2005. From 1994 through 2005, Mr. Hanson served as chairman of the National Football Foundation and College Hall of Fame, Inc. He now serves as chairman emeritus. Since 1991, Mr. Hanson has served as a director of Prudential Financial Corp., and he has also served as a director of the Hackensack University Medical Center for the past 20 years. Mr. Hanson also currently serves as a director of Pascack Community Bank and Yankee Global Enterprises.

Leo I. Higdon, Jr.

Mr. Higdon has served as president of Connecticut College since July 1, 2006. He served as the president of the College of Charleston from October 1, 2001 to June 30, 2006. Between 1997 and 2001, Mr. Higdon served as president of Babson College in Wellesley, Massachusetts. He also served as dean of the Darden Graduate School of Business Administration at the University of Virginia. His financial experience includes a 20-year tenure at Salomon Brothers, where he became vice chairman and member of the executive committee, managing the Global Investment Banking Division. Mr. Higdon also serves as a director of Eaton Vance Corp.

John E. Maupin, Jr.

Dr. Maupin is president of the Morehouse School of Medicine located in Atlanta, Georgia, a position he has held since July 2006. Prior to joining Morehouse, Dr. Maupin held several other senior administrative positions including president and chief executive officer of Meharry Medical College from 1994 to 2006, executive vice president and chief operating officer of the Morehouse School of Medicine from 1989 to 1994, chief executive officer of Southside Healthcare, Inc. from 1987 to 1989, and Deputy Commissioner of Health of the Baltimore City Health Department from 1984 to 1987. Dr. Maupin serves as a director of LifePoint Hospitals, VALIC Companies and Regions Financial Corp.

L. Edward Shaw, Jr.

Since March 1, 2006, Mr. Shaw has served as a senior managing director of Richard C. Breeden & Co., a multi-disciplinary professional services firm specializing in strategic consulting, corporate reorganizations, and governance matters. From 2004 to 2006, Mr. Shaw was Of Counsel with the international law firm of Gibson Dunn & Crutcher LLP. From January 1, 2004 to September 15, 2004, Mr. Shaw practiced law as a sole practitioner and served as Independent Counsel to the Board of Directors of the New York Stock Exchange on regulatory matters. From 1999 to 2003, Mr. Shaw served as general counsel of Aetna, Inc., one of the leading providers of health and group insurance benefits in the United States. Mr. Shaw also served as an executive vice president and member of the Office of the Chairman of Aetna from 2000 to 2003. Mr. Shaw also serves as a director of H & R Block, Inc., Mine Safety Appliances Co., and Covenant House, the nation’s largest privately funded provider of crisis care to children.

Board Recommendation

The board of directors recommends that you vote “FOR” the election of all ten director nominees.

Proposal 2 – Ratification of Appointment of Independent Registered Public Accounting Firm

Appointment of PricewaterhouseCoopers LLP

In accordance with its charter, the Audit Committee selected the firm of PricewaterhouseCoopers LLP to be HealthSouth’s independent registered public accounting firm for 2008, and with the endorsement of the board of directors, recommends to our stockholders that they ratify that appointment. Representatives of PricewaterhouseCoopers LLP are expected to attend the annual meeting and will have the opportunity to make a statement if they desire, and are expected to be available to respond to appropriate questions.

The Audit Committee recognizes the importance of maintaining the independence of the Company’s independent registered public accounting firm, both in fact and appearance. Consistent with its charter, the committee has evaluated PricewaterhouseCoopers LLP’s qualifications, performance, and independence, including that of the lead audit partner. The Audit Committee reviews and approves, in advance, the audit scope, the types of non-audit services, if any, and the estimated fees for each category for the coming year. For each category of proposed service, PricewaterhouseCoopers LLP is required to confirm that the provision of such services does not impair their independence. Before selecting PricewaterhouseCoopers LLP, the Audit Committee carefully considered that firm's qualifications as an independent registered public accounting firm for the Company. This included a review of its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The committee has expressed its satisfaction with PricewaterhouseCoopers LLP in all of these respects. The committee's review included inquiry concerning any litigation involving PricewaterhouseCoopers LLP and any proceedings by the Securities and Exchange Commission ("SEC") against the firm. In this respect, the committee has concluded that the ability of PricewaterhouseCoopers LLP to perform services for HealthSouth is in no way adversely affected by any such investigation or litigation.

Pre-Approval of Principal Accountant Services

The Audit Committee of our board of directors is responsible for the appointment, oversight, and evaluation of our independent registered public accounting firm. In accordance with our Audit Committee's charter, our Audit Committee must approve, in advance of the service, all audit and permissible non-audit services provided by our independent registered public accounting firm. Our independent registered public accounting firm may not be retained to perform the non-audit services specified in Section 10A(g) of the Securities Exchange Act of 1934 (the "Exchange Act"). The committee has concluded that provision of the non-audit services described in that section is compatible with maintaining the independence of PricewaterhouseCoopers LLP.

The Audit Committee has established a policy regarding preapproval of all audit and permissible non-audit services provided by our independent registered public accounting firm, as well as all engagement fees and terms for our independent registered public accounting firm. Under the policy, the Audit Committee must approve annually a resolution setting forth the expected services to be rendered and fees to be charged by our independent registered public accounting firm during the year. The Audit Committee must approve, in advance, any services or fees exceeding preapproved levels. The Audit Committee has delegated general preapproval authority to a subcommittee of which the chairman of the Audit Committee is the only member. All requests or applications for services to be provided by our independent registered public accounting firm must be submitted to specified officers who may determine whether such services are included within the list of preapproved services. All requests for services that have not been preapproved must be accompanied by a statement that the request is consistent with the independent registered public accounting firm's independence from HealthSouth.

Principal Accountant Fees and Services

With respect to the audits for the years ended December 31, 2007 and 2006, the Audit Committee approved the audit services to be performed by PricewaterhouseCoopers LLP, as well as certain categories and types of audit-related, tax, and permitted non-audit services. The following table shows the aggregate fees paid or accrued for professional services rendered by PricewaterhouseCoopers LLP for the years ended December 31, 2007 and 2006, with respect to various services provided to us and our subsidiaries.

	2007		2006	
	(In Millions)			
Audit Fees	$ 12.3	(1)	$ 24.8	(3)
Audit-Related Fees	0.9	(2)	1.4	(4)
Total Audit and Audit –Related Fees	13.2		26.2	
Tax Fees	0.0		0.0	
All Other Fees (5)	3.8		3.6	
Total Fees	$ 17.0		$ 29.8	

(1) *Audit Fees* – Represents aggregate fees paid or accrued for professional services rendered for the audit of our consolidated financial statements and internal control over financial reporting for the years ended December 31, 2007 and 2006; fees for professional services rendered for the review of financial statements included in our 2007 Form 10-Qs; and fees for professional services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory engagements required by various partnership agreements or state and local laws in the jurisdictions in which we operate or manage facilities.

(2) *Audit-Related Fees* – Represents aggregate fees paid or accrued for professional services rendered for the carveout financial statement audits of our surgery centers, outpatient, and diagnostic divisions for the year ended December 31, 2006.

(3) *Audit Fees* – Represents aggregate fees paid or accrued for professional services rendered for the audit of our consolidated financial statements and internal control over financial reporting for the years ended December 31, 2006 and 2005; fees for professional services rendered for the review of financial statements included in our 2006 Form 10-Qs (including the review of quarterly information for 2005, which had never been presented); and fees for professional services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory engagements required by various partnership agreements or state and local laws in the jurisdictions in which we operate or manage facilities.

(4) *Audit-Related Fees* – Represents aggregate fees paid or accrued for professional services rendered for the carveout financial statement audits of our surgery centers, outpatient, and diagnostic divisions for the years ended December 31, 2005 and 2004, and the carveout financial statement audit of our diagnostic division for the year ended December 31, 2003.

(5) *All Other Fees* – Represents fees for all other products and services provided by our independent registered public accounting firm that do not fall within the previous categories. More specifically, these fees include amounts paid to PricewaterhouseCoopers LLP for services as our Independent Review Organization, as stipulated in the December 2004 Corporate Integrity Agreement. It also includes fees for professional services for transaction support associated with the divestitures of our surgery centers, outpatient, and diagnostic divisions.

Board Recommendation

The board of directors and the Audit Committee recommend that you vote "FOR" ratifying the appointment of PricewaterhouseCoopers LLP as HealthSouth's independent registered public accounting firm for 2008.

Proposal 3 – Approval of HealthSouth 2008 Equity Incentive Plan

Introduction

On February 21, 2008, the Board of Directors approved the adoption, subject to stockholder approval at the Annual Meeting, of the HealthSouth Corporation 2008 Equity Incentive Plan (the "2008 Plan"). A summary of the 2008 Plan is set forth below. The summary is qualified in its entirety by reference to the full text of the 2008 Plan, a copy of which is attached as Appendix A to this proxy statement.

Summary of 2008 Plan

Purpose. The purpose of the 2008 Plan is to promote HealthSouth's success and enhance the value of HealthSouth by linking the personal interests of its employees, officers, and directors to those of its stockholders, and by providing participants with an incentive for outstanding performance.

Eligibility. The 2008 Plan permits the grant of incentive awards to employees, officers, and directors of HealthSouth and its affiliates as selected by the Compensation Committee.

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Permissible Awards. The 2008 Plan authorizes the granting of awards in any of the following forms:

- options to purchase shares of common stock,
- stock appreciation rights,
- restricted stock and restricted stock units,
- performance awards payable in stock or cash,
- dividend equivalents, and
- other stock-based awards.

Aggregate Shares. Subject to adjustment as provided in the 2008 Plan, the aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted under the 2008 Plan is 6,000,000.

Minimum Vesting Requirements. Any award of stock (other than an option) granted under the 2008 Plan to an employee will either (1) be subject to a minimum vesting period of three years (which may include graduated vesting within such three-year period), or one year if the vesting is based on performance criteria other than continued service, or (2) be granted solely in exchange for foregone cash compensation.

Oversight and Administration. The Compensation Committee provides oversight to the administration of the 2008 Plan. The Compensation Committee has the authority to designate participants; determine the type or types of awards to be granted to each participant and the number, terms and conditions thereof; establish, adopt or revise any rules and regulations as it may deem advisable to administer the 2008 Plan; and make all other decisions and determinations that may be required under the 2008 Plan. The board of directors may at any time administer the 2008 Plan. If it does so, it will have all the powers of the Compensation Committee. The Compensation Committee has adopted an equity award program for the administration of the 2008 Plan. See “Compensation Discussion and Analysis” in this proxy statement for more information.

Stock Options. The Compensation Committee is authorized to grant incentive stock options or non-qualified stock options under the 2008 Plan. The terms of an incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). The exercise price of an option may not be less than the fair market value of the underlying stock on the date of grant and no option may have a term of more than 10 years.

Stock Appreciation Rights. The Compensation Committee may also grant stock appreciation rights (“SARs”). These provide the holder the right to receive the excess, if any, of the fair market value of one share of common stock on the date of exercise, over the base price of the stock appreciation right as determined by the Compensation Committee, which will not be less than the fair market value of one share of common stock on the grant date. SARs may be payable in cash or shares of common stock or a combination thereof. No SAR may be exercised more than 10 years from the grant date.

Restricted Stock Awards. The Compensation Committee may make awards of restricted stock to participants, which will be subject to such restrictions on transferability and other restrictions as the Compensation Committee may impose (including, without limitation, limitations on the right to vote restricted stock or the right to receive dividends, if any, on the restricted stock).

Restricted Stock Units. The Compensation Committee may make awards of restricted stock units to non-employee directors, which will be subject to such restrictions on transferability and other restrictions as the Compensation Committee may impose. Upon lapse of such restrictions, shares of common stock or cash may be issued to the participant in settlement of the restricted stock units.

Performance Awards. The Compensation Committee may grant performance awards that are designated in cash (performance units) or in shares of common stock (performance shares). The Compensation Committee will have the complete discretion to determine the number of performance awards granted to any participant and to set performance goals and other terms or conditions to payment of the performance awards in its discretion which, depending on the extent to which they are met, will determine the number and value of performance awards that will be paid to the participant.

Dividend Equivalents. The Compensation Committee is authorized to grant dividend equivalents to participants subject to such terms and conditions as may be selected by the Compensation Committee. Dividend equivalents entitle the participant to receive payments equal to dividends with respect to all or a portion of the shares of common stock subject to an award, as determined by the Compensation Committee.

Other Stock-Based Awards. The Compensation Committee may, subject to limitations under applicable law, grant to participants such other awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of common stock as deemed by the Compensation Committee to be consistent with the purposes of the 2008 Plan, including, without limitation, shares of common stock awarded purely as a bonus and not subject to any restrictions or conditions, convertible or exchangeable debt securities, other rights convertible or exchangeable into shares of common stock, and awards valued by reference to book value of shares of common stock or the value of securities of or the performance of specified parents or subsidiaries. The Compensation Committee will determine the terms and conditions of any such awards, subject to the minimum vesting requirements discussed above.

Performance Goals. Options and SARs granted under the 2008 Plan will automatically qualify as performance-based awards that are fully deductible by HealthSouth without regard to the $1 million deduction limit imposed by §162(m) of the Code. The Compensation Committee may designate any other award under the 2008 Plan (such as, for example, a cash incentive bonus or restricted stock award) as a qualified performance-based award in order to make the award fully deductible under Code §162(m). If an award is so designated, the Compensation Committee must establish objectively determinable performance goals for the award based on one or more performance criteria, which may be expressed in terms of Company-wide objectives or in terms of objectives that relate to the performance of a division, affiliate, region, department or function within HealthSouth or an affiliate. Performance criteria may be specified in absolute terms, in percentages, or in terms of growth from period to period or growth rates over time, as well as measured relative to an established or specially created index of HealthSouth competitors or peers. Performance criteria for qualified performance-based awards will be limited to specified levels or increases in:

- earnings per share or other corporate measure;
- profit (net profit, gross profit, operating profit, economic profit or other profit measures);
- net income;
- revenue;
- stock price or performance;
- total stockholder return;
- return measures (return on assets, capital, equity or revenue);
- EBITDA (earnings before interest, taxes, depreciation and amortization);
- market share;
- expenses;
- business expansions or consolidation;
- internal rate of return;
- planning accuracy;
- year-over-year patient volume growth; and
- quality of care metrics.

For a qualified performance-based award, the Compensation Committee must establish such goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under applicable tax regulations) and the Compensation Committee may not increase any award or, except in the case of certain qualified terminations of employment, waive the achievement of any specified goal. Any payment of an award granted with performance goals will be conditioned on the written certification of the Compensation Committee in each case that the performance goals and any other material conditions were satisfied.

Limitations on Transfer; Beneficiaries. No award will be assignable or transferable by a participant other than by will or the laws of descent and distribution or, except in the case of an incentive stock option, pursuant to a qualified domestic relations order; provided, however, that the Compensation Committee may (but need not) permit other transfers where the Compensation Committee concludes that such transferability does not result in accelerated taxation, does not cause any option intended to be an incentive stock option to fail to qualify as such, and is otherwise appropriate and desirable. No award may be transferred for value. A participant may, in the manner determined by the Compensation Committee, designate a beneficiary to exercise the rights of the participant and to receive any distribution with respect to any award upon the participant's death.

Acceleration Upon Certain Events. Unless otherwise provided in an award agreement, if a participant is terminated without cause (as such terms are defined in the 2008 Plan) within 24 months after a change in control of HealthSouth (as defined in the 2008 Plan), all of such participant's outstanding options and SARs will become fully vested and exercisable and all restrictions on his or her outstanding restricted stock awards will lapse. In each of the above cases except retirement, the Compensation Committee also may (but need not) waive the achievement of performance goals under the participant's Code §162(m) performance-based awards. The Compensation Committee may accelerate awards for any other reason. The Compensation Committee may discriminate among participants or among awards in exercising such discretion.

Adjustments. In the event of a stock-split, a stock dividend, or a combination or consolidation of the outstanding common stock into a lesser number of shares, the authorization limits under the 2008 Plan will automatically be adjusted proportionately, and the shares then subject to each award will automatically be adjusted proportionately without any change in the aggregate purchase price. In the event the common stock will be changed into or exchanged for a different number or class of shares of stock or securities of HealthSouth or of another corporation, the authorization limits under the 2008 Plan will automatically be adjusted proportionately, and there will be substituted for each such share of common stock, the number or class of shares into which each outstanding share of common stock will be so exchanged, all without any change in the aggregate purchase price.

Termination and Amendment. The board of directors or the Compensation Committee may, at any time and from time to time, terminate or amend the 2008 Plan without stockholder approval; but if an amendment to the 2008 Plan would, in the reasonable opinion of the board or the Compensation Committee, materially increase the benefits accruing to participants, materially increase the number of shares of stock issuable under the 2008 Plan, expand the types of awards, materially modify the requirements for eligibility, materially expand the term of the 2008 Plan, or otherwise constitute a material amendment requiring stockholder approval under applicable laws, policies or regulations, then such amendment will be subject to stockholder approval. In addition, the board or the Compensation Committee may condition any amendment on the approval of the stockholders for any other reason, including necessity or advisability under tax, securities or other applicable laws, policies or regulations. No termination or amendment of the 2008 Plan may adversely affect any award previously granted under the 2008 Plan without the written consent of the participant. The Compensation Committee may amend or terminate outstanding awards. However, such amendments may require the consent of the participant and, unless approved by the stockholders or otherwise permitted by the antidilution provisions of the 2008 Plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, and the original term of an option may not be extended.

Certain Federal Tax Effects.

Nonqualified Stock Options.There will be no federal income tax consequences to the optionee or to HealthSouth upon the grant of a nonqualified stock option under the 2008 Plan. When the optionee exercises a nonqualified option, however, he or she will recognize ordinary income in an amount equal to the excess of the fair market value of the common stock received upon exercise of the option at the time of exercise over the exercise price, and HealthSouth will be allowed a corresponding deduction. Any gain that the optionee realizes when he or she later sells or disposes of the option shares will be short-term or long-term capital gain, depending on how long the shares were held.

Incentive Stock Options.There typically will be no federal income tax consequences to the optionee or to HealthSouth upon the grant or exercise of an incentive stock option. If the optionee holds the option shares for the required holding period of at least two years after the date the option was granted or one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and HealthSouth will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price, and HealthSouth will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee’s alternative minimum taxable income.

Stock Appreciation Rights. A participant receiving a SAR will not recognize income, and HealthSouth will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the SAR, the amount of cash and the fair market value of any shares of common stock received will be ordinary income to the participant and HealthSouth will be allowed as a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m).

Restricted Stock. Unless a participant makes an election to accelerate recognition of the income to the date of grant as described below, the participant will not recognize income, and HealthSouth will not be allowed a tax deduction, at the time a restricted stock award is granted. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the common stock as of that date (less any amount he or she paid for the stock), and HealthSouth will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m). If the participant files an election under Code §83(b) within 30 days after the date of grant of the restricted stock, he or she will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock), and HealthSouth will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m). Any future appreciation in the stock will be taxable to the participant at capital gains rates. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to the Code §83(b) election.

Restricted Stock Units. The recipient will not recognize income, and HealthSouth will not be allowed a tax deduction, at the time a restricted stock unit award is granted. Upon issuance of shares of common stock in settlement of a restricted stock unit award, the recipient will recognize ordinary income equal to the fair market value of the common stock as of that date (less any amount he or she paid for the stock), and HealthSouth will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m).

Performance Awards. A participant generally will not recognize income, and HealthSouth will not be allowed a tax deduction, at the time performance awards are granted, so long as the awards are subject to a substantial risk of forfeiture. When the participant receives or has the right to receive payment of cash or shares under the performance award, the cash amount of the fair market value of the shares of stock will be ordinary income to the participant, and HealthSouth will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code §162(m).

New Plan Benefits Table

The value, number of units and type of equity to be awarded under future long-term incentive programs depend on a number of factors, including, but not limited to, the Company’s performance, the Company’s goals and objectives, individual performance and the discretion of the Compensation Committee. Accordingly, it is not possible to determine at this time the grants that will be awarded to any participant under the 2008 Plan for 2008 performance. However, it is possible to indicate future intent of the Compensation Committee based on the recent equity grants.

In February 2008, the Compensation Committee approved certain equity grants that are reflective of the Compensation Committee’s intent to shift aggressively to performance based equity awards for the executive officers and senior officer levels. At least half of the grant value of the most recent awards (two-thirds in the case of Mr. Grinney) is comprised of performance-based restricted stock. This type of award has a two-year performance period which links achievement of the award to the achievement by the Company of a pre-determined, cumulative earnings per share goal and a total stockholder return goal relative to the defined peer group. These goals strongly link to creating stockholder value. If threshold goals are attained, then a grant will occur, the value of which corresponds with the achievement level. The shares granted then have a one-year time based restriction period before restrictions lapse and shares are released to the executive. If threshold goals are not attained, then no grant will occur. Although the grants described in the table below were made under the 2005 Equity Incentive Plan and the 1998 Restricted Stock Plan, the Compensation Committee anticipates using a similar performance-based approach for awards under the proposed 2008 Plan.

Name and Position	Dollar Value ($)	Number of Units[1]
Jay Grinney – Chief Executive Officer	$4,000,000	317,470[2]
John Workman – Chief Financial Officer	$1,000,000	91,990[3]
John Whittington, Executive Vice President, General Counsel and Corporate Secretary	$700,000	64,450[4]
Mark Tarr – Executive Vice President, Operations	$700,000	64,450[5]
Executive Group (all of the above)	$6,400,000	538,360
Non-Executive Director Group	$810,000	49,788[6]
Non-Executive Officer Employee Group	$8,532,000	455,750[7]

1 Number of units granted was based on an assumed option value of $7.74 and on assumed stock value of $18.24.

2 Represents 170,540 options and 146,930 units of performance-based restricted stock.

3 Represents 64,550 options and 27,440 units of performance-based restricted stock.

4 Represents 45,250 options and 19,200 units of performance-based restricted stock.

5 Represents 45,250 options and 19,200 units of performance-based restricted stock.

6 Represents restricted stock units granted pursuant to the 2004 Amended and Restated Director Incentive Plan.

7 Represents 366,450 units of time-based restricted stock and 89,300 units of performance-based restricted stock.

Board Recommendation

The board of directors recommends that you vote "FOR" the approval of the HealthSouth 2008 Equity Incentive Plan.

CORPORATE GOVERNANCE AND BOARD STRUCTURE

Corporate Governance

Corporate Governance Guidelines

The board of directors has adopted Corporate Governance Guidelines, which provide, among other things, that each member of our board of directors will:

- dedicate sufficient time, energy, and attention to ensure the diligent performance of his or her duties;
- comply with the duties and responsibilities set forth in the Corporate Governance Guidelines and in our By-Laws;
- comply with all duties of care, loyalty, and confidentiality applicable to directors of publicly traded Delaware corporations; and
- adhere to our Standards of Business Conduct, including the policies on conflicts of interest.

Our Nominating/Corporate Governance Committee oversees and periodically reviews the Guidelines, and recommends any proposed changes to the board of directors for approval.

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Code of Ethics

We have adopted Standards of Business Conduct (our "code of ethics") that applies to all employees, directors and officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The purpose of the code of ethics is to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; to promote full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by HealthSouth; to promote compliance with all applicable rules and regulations that apply to HealthSouth and its officers and directors; to promote the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and to promote accountability for adherence to the code. We will disclose any future amendments to, or waivers from, certain provisions of these ethical policies and standards for officers and directors on our website promptly following the date of such amendment or waiver.

Corporate Website

We maintain a corporate governance section on our website which contains copies of our principal governance documents, including our code of ethics. Our corporate governance section is located at www.healthsouth.com under the heading "Who We Are / Corporate Governance," and includes the following documents, among others:

- Charter of the Audit Committee
- Charter of the Compensation Committee
- Charter of the Compliance/Quality of Care Committee
- Charter of the Finance Committee
- Charter of the Nominating/Corporate Governance Committee
- Standards of Business Conduct
- Corporate Governance Guidelines

Our stockholders may obtain, without charge, copies of the documents listed above upon written request to: HealthSouth Corporation, 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, Attention: Corporate Secretary.

Board Policy Regarding Voting for Directors

HealthSouth has implemented a majority vote standard in the election of directors. In addition, HealthSouth has adopted a policy whereby any incumbent director nominee who receives a greater number of votes "against" his or her election than votes "for" such election will tender his or her resignation for consideration by the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee will recommend to the board of directors the action to be taken with respect to such offer of resignation.

Communications to Directors

Stockholders and other parties interested in communicating directly to the board of directors, any committee, or any non-management director may do so by writing to the address listed below:

HEALTHSOUTH CORPORATION

BOARD OF DIRECTORS

P.O. BOX 382827

BIRMINGHAM, ALABAMA 35238

ATTENTION: [Addressee*]

* The "Addressee" description will allow HealthSouth to direct the communication to the intended recipient.

All communications received as set forth in this paragraph will be opened by the office of our General Counsel for the sole purpose of determining whether the contents represent a message to our directors. Any contents that are not in the nature of advertising, promotions of a product or service, or patently offensive material will be forwarded promptly to the addressee. In the case of communications to the board of directors or any group or committee of directors, the General Counsel's office will make sufficient copies of the contents to send to each director who is a member of the group or committee to which the envelope is addressed.

Board Structure and Director Nominations

Board Structure and Meetings

Our business, property, and affairs are managed under the direction of our board of directors. Members of our board of directors are kept informed of our business through discussions with our chief executive officer and other officers, by reviewing materials provided to them, by visiting our offices, and by participating in meetings of the board of directors and its committees.

The board of directors met 10 times during 2007. Each incumbent member of the board of directors attended 75% or more of the aggregate of the meetings of the board of directors and of the committees on which he or she served that were held during the period for which he or she was a director or committee member, respectively. In addition, it is HealthSouth's policy that directors are expected to attend the annual meeting of stockholders. The members of the board of directors generally hold a meeting immediately following the annual meeting of stockholders. Thus, the annual meeting of stockholders and the board of directors meeting are held at the same location to further facilitate and encourage the directors to attend the annual meeting of stockholders. All members of our board of directors attended the annual meeting in 2007.

Criteria for Board Members

The Nominating/Corporate Governance Committee considers the following factors in evaluating the suitability of candidates and nominees to our board of directors:

- *Integrity*: Candidates should demonstrate high ethical standards and integrity in their personal and professional dealings.
- *Accountability*: Candidates should be willing to be accountable for their decisions as directors.
- *Judgment*: Candidates should possess the ability to provide wise and thoughtful counsel on a broad range of issues.
- *Responsibility*: Candidates should interact with each other in a manner which encourages responsible, open, challenging and inspired discussion. Directors must be able to comply with all duties of care, loyalty, and confidentiality applicable to directors of publicly traded Delaware corporations.
- *High Performance Standards*: Candidates should have a history of achievements which reflects high standards for themselves and others.
- *Commitment and Enthusiasm*: Candidates should be committed to, and enthusiastic about, their performance for the Company as directors, both in absolute terms and relative to their peers. Directors should be free from conflicts of interest and be able to devote sufficient time to satisfy their board responsibilities.
- *Financial Literacy*: Candidates should be able to read and understand fundamental financial statements and understand the use of financial ratios and information in evaluating the financial performance of the Company.
- *Courage*: Candidates should possess the courage to express views openly, even in the face of opposition.

Director Nomination Process

The Nominating/Corporate Governance Committee of the board of directors developed a policy regarding director nominations ("Nominations Policy"). The Nominations Policy describes the process by which candidates for possible inclusion in HealthSouth's slate of director nominees are selected.

Internal Process for Identifying Candidates

The Nominating/Corporate Governance Committee has two primary methods for identifying director nominees (other than those proposed by stockholders, as discussed below). First, on a periodic basis, the committee solicits ideas for possible candidates from members of the board of directors, senior level executives, and individuals personally known to the members of the board. Second, the committee may from time to time use its authority under its charter to retain, at HealthSouth's expense, one or more search firms to identify candidates (and to approve such firms' fees and other retention terms).

Proposals for Director Nominees by Stockholders

The Nominating/Corporate Governance Committee will consider written proposals from stockholders for director nominees. In considering candidates submitted by stockholders, the Nominating/Corporate Governance Committee will take into consideration the needs of the board of directors and the qualifications of the candidate. In accordance with our By-Laws, any such nominations must be delivered or mailed to and received by the Nominating/Corporate Governance Committee, c/o the Corporate Secretary, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event the annual meeting is called for a date that is not within 30 days before or after such anniversary date, a nomination, in order to be timely, must be received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. The Nominating/Corporate Governance Committee received no nominee recommendations from stockholders beneficially owning more than 5% of HealthSouth's voting common stock. For nominations for our 2009 annual meeting of stockholders, stockholder nomination must be delivered to or mailed and received at our principal executive offices on or after January 8, 2009 and not later than the close of business on February 7, 2009.

Stockholder nominations must include certain prescribed information set forth in Section 3.4 of the By-Laws, as amended. Specifically, stockholder nominations must set forth: (1) as to each person whom the stockholder proposes to nominate for election as a director (a) the name, age, business address and residence address of the person, (b) the principal occupation or employment of the person, (c) the class or series and number of shares of HealthSouth capital stock which are owned beneficially or of record by the person, (d) a statement whether such person, if elected, intends to tender, promptly following such person's election or re-election, an irrevocable resignation effective upon such person's failure to receive the required vote for re-election at the next meeting at which such person would face re-election and upon acceptance of such resignation by the board of directors, in accordance with the Corporate Governance Guidelines, and (e) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder; and (2) as to the stockholder giving the notice (a) the name and record address of such stockholder, (b) the class or series and number of shares of HealthSouth capital stock which are owned beneficially or of record by such stockholder, (c) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (d) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (e) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

The By-Laws will be provided to any stockholder by mail without charge upon request to the corporate secretary.

Evaluation of Candidates

The Nominating/Corporate Governance Committee will consider all candidates identified through the processes described above, and will evaluate each of them, including incumbents, based on the same criteria. If, after the committee's initial evaluation, a candidate meets the criteria for membership, the chair of the Nominating/Corporate Governance Committee will interview the candidate and communicate the chair's evaluation to the other members of the committee, the chairman of the board and the chief executive officer. Later reviews will be conducted by other members of the committee and senior management. Ultimately, background and reference checks will be conducted and the committee will meet to finalize its list of recommended candidates for the board's consideration. The candidates recommended for the board's consideration will be those individuals that will create a board of directors that is, as a whole, strong in its collective knowledge of, and diverse in skills and experience with respect to, accounting and finance, management and leadership, vision and strategy, business operations, business judgment, crisis management, risk assessment, industry knowledge, corporate governance and global markets.

Charles M. Elson, as chair of the Nominating/Corporate Governance Committee, recommended director nominee, John W. Chidsey, to the Nominating/Corporate Governance Committee.

Director Independence

Review of Director Independence

On February 21, 2008, the board of directors undertook its review of the independence of the nominees as independent directors based on our Corporate Governance Guidelines. During its review, the board of directors assessed whether any transactions or relationships exist currently or during the past three years existed between any director or any member of his or her immediate family and HealthSouth and its subsidiaries, affiliates, or our independent registered public accounting firm. The board of directors also examined whether there were any transactions or relationships between any director or any member of his or her immediate family and members of the senior management of HealthSouth or their affiliates. In connection with this determination, on an annual basis, each director and executive officer is required to complete a Director and Officer Questionnaire which requires disclosure of any transactions with HealthSouth in which the director or executive officer, or any member of his or her immediate family, have a direct or indirect material interest. The board of directors considered that in the ordinary course of business, transactions may occur between HealthSouth and its subsidiaries and companies at which some of our directors are or have been officers. In each case, the amount of transactions from these companies in each of the last three years did not approach the levels set forth in the Corporate Governance Guidelines. The board of directors also considered charitable contributions to not-for-profit organizations of which our directors or immediate family members are executive officers, none of which approached the levels set forth in our Corporate Governance Guidelines.

Determination of Director Independence

Based on its review, the board of directors affirmatively determined that each of Edward A. Blechschmidt, John W. Chidsey, Donald L. Correll, Yvonne M. Curl, Charles M. Elson, Jon F. Hanson, Leo I. Higdon, Jr., John E. Maupin, Jr. and L. Edward Shaw, Jr. is an independent director in accordance with our Corporate Governance Guidelines. Mr. Grinney, who is our chief executive officer, was not deemed to be independent. Each of HealthSouth's directors other than Mr. Grinney also satisfies the definition of independence contained in Rule 303A.02 of the listing standards for the New York Stock Exchange (the "NYSE"). The board of directors also determined that:

- each member of the Audit Committee, the Compensation Committee, the Compliance/Quality of Care Committee, and the Nominating/Corporate Governance Committee was an independent director under our Corporate Governance Guidelines and otherwise meets the qualifications for membership on such committee imposed by the NYSE and other applicable laws and regulations;
- each member of the Audit Committee had accounting or related financial management expertise and was financially literate, and otherwise meets the audit committee membership requirements imposed by the NYSE, our Corporate Governance Guidelines, and other applicable laws and regulations; and that

each of Mr. Blechschmidt, Mr. Chidsey and Mr. Correll qualify as an "audit committee financial expert" within the meaning of SEC regulations; and

- each member of the Compliance/Quality of Care Committee was an independent director under our Corporate Governance Guidelines.

In addition, there are no arrangements or understandings known to us between any of the directors nominated for election to the board of directors and any other person pursuant to which a director was or is to be elected as a director or nominee, other than any arrangements or understandings with directors or officers of HealthSouth acting solely in their capacities as such. None of our directors, nominees or executive officers is a party to any material proceedings adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

Standards of Director Independence

Under the listing standards adopted by the NYSE, a director will be considered "independent" and found to have no material relationship with the Company if during the prior three years:

- The director has not been an employee of the Company or any of its subsidiaries, and no immediate family member of the director has been an executive officer of the Company;
- Neither the director nor an immediate family member of the director has received more than $100,000 per year in direct compensation from the Company other than director and committee fees and pension or other forms of direct compensation for prior service (provided such compensation is not contingent in any way on future service);
- The director has not been affiliated with or employed by a present or former internal or external auditor of the Company;
- No immediate family member of the director has been employed as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee; and
- The director has not been an executive officer or employee, and no immediate family member of the director has been an executive officer, of a company that makes payments to or receives payments from the company for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of such other company's consolidated gross revenues.

Committees of the Board of Directors

Committee Memberships and Meetings

Our board of directors has the following five standing committees, each of which is governed by a charter and reports its actions and recommendations to the board of directors: Audit Committee, Compensation Committee, Compliance/Quality of Care Committee, Finance Committee, and Nominating/Corporate Governance Committee. The following table shows the number of meetings and the membership of each board committee as of December 31, 2007.

	Audit Committee	Compensation Committee	Compliance/ Quality of Care Committee	Finance Committee	Nominating/ Corporate Governance Committee
# Meetings in 2007:	8	10	4	18	6
Edward A. Blechschmidt	Chair				
John W. Chidsey	X				
Donald L. Correll	X			Chair	
Yvonne M. Curl		X	X		
Charles M. Elson			X		Chair
Jon F. Hanson				X	X
Leo I. Higdon, Jr.		Chair		X	
John E. Maupin, Jr.		X	Chair		
L. Edward Shaw, Jr.			X		X

Audit Committee

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee's purpose, per the terms of its charter, is to assist the board of directors in fulfilling its responsibilities to the Company and its stockholders, particularly with respect to the oversight of the accounting, auditing, financial reporting, internal control, and compliance practices of HealthSouth. The specific responsibilities of the Audit Committee are, among others, to:

- assist the board of directors in the oversight of the integrity of our financial statements and compliance with legal and regulatory requirements, the qualifications and independence of our independent auditor, and the performance of our internal audit function and our independent auditor;
- appoint, compensate, replace, retain, and oversee the work of our independent auditor;
- at least annually, review a report by our independent auditor regarding its internal quality control procedures, material issues raised by certain reviews, inquiries or investigations relating to independent audits within the last five years, and relationships between the independent auditor and the Company;
- discuss our annual audited financial statements and quarterly financial statements with management and our independent auditor, as well as management's assessment of and the independent auditor's opinion regarding the effectiveness of the Company's internal control over financial reporting;
- discuss earnings press releases with management and our independent auditor, make recommendations to the board of directors regarding the filing of such press releases, and discuss financial information and earnings guidance provided to analysts and rating agencies;
- set clear hiring policies for employees or former employees of our independent auditor; and
- appoint and oversee the activities of our Inspector General who has the responsibility to identify violations of Company policy and law relating to accounting or public financial reporting, to review the Inspector General's periodic reports and to set compensation for the Inspector General and its staff.

In connection with its duties, the committee reviews and evaluates, at least annually, the performance of the committee and its members, may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and performs all acts reasonably necessary to fulfill its responsibilities and achieve its objectives. The Audit Committee concluded that, during 2007, it satisfied its duties and responsibilities under its charter. The Audit Committee Report is on page 28.

Compensation Committee

The Compensation Committee's purpose and objectives are to oversee our compensation and employee benefit objectives, plans and policies and to review and recommend to the independent members of

the board of directors the individual compensation of our executive officers in order to attract and retain high-quality personnel to better ensure our long-term success and the creation of long-term stockholder value. The specific responsibilities of the Compensation Committee are, among others, to:

- review and approve our compensation programs and policies, including our benefit plans, incentive compensation plans and equity-based plans, to amend, or recommend that the board of directors amend, such programs, policies, goals or objectives, and act as (or designate) an administrator for such plans as may be required;
- review and approve corporate goals and objectives relevant to the compensation of the chief executive officer and other executive officers and evaluate the performance of the chief executive officer and other executive officers in light of those goals and objectives;
- determine and approve (either as a committee or together with the independent directors) the base compensation levels and incentive compensation levels for the chief executive officer and other executive officers and recommend the same to the board of directors for approval;
- review and discuss with management the Company's Compensation Discussion and Analysis, and recommend inclusion thereof in our annual report or proxy statement;
- review and approve employment agreements, severance arrangements and termination arrangements and change in control arrangements to be made with any executive officer of the Company; and
- review and recommend to the board of directors fees and retainers for non-employee members of the board and non-employee members and chairpersons of committees of the board.

In connection with its duties, the committee reviews and evaluates, at least annually, the performance of the committee and its members, may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and perform all acts reasonably necessary to fulfill its responsibilities and achieve its objectives. As discussed in further detail on page 29, the Compensation Committee engaged Mercer Human Resource Consulting ("Mercer") and Frederic W. Cook & Company ("Cook & Co.") to assist it in its review and determination of executive compensation levels. The Compensation Committee Report is on page 30.

Compliance/Quality of Care Committee

The Compliance/Quality of Care Committee's function is to assist our board of directors in fulfilling its fiduciary responsibilities relating to our regulatory compliance activities and to ensure we deliver quality care to our patients. The committee is primarily responsible for overseeing, monitoring, and evaluating HealthSouth's compliance with all of its regulatory obligations other than tax and securities law-related obligations and reviewing the quality of services provided to patients at our facilities. The primary objectives and responsibilities of the Compliance/Quality of Care Committee are to:

- ensure the establishment and maintenance of a regulatory compliance program and the development of a comprehensive quality of care program designed to measure and improve the qualify of care and safety furnished to patients;
- appoint and oversee the activities of a chief compliance officer with responsibility for developing and implementing our regulatory compliance program, which is subject to our annual review, and approve, and perform, or have performed, an annual evaluation of the performance of the chief compliance officer and the compliance office;
- review and approve annually the quality program description and the performance of the chief medical officer and the quality of care program;
- monitor the Company's compliance with any Corporate Integrity Agreement ("CIA") or similar undertaking, with the U.S. Department of Health and Human Services ("HHS") Office of Inspector General ("HHS-OIG"), or any other government agency;

- review periodic reports from the compliance officer, including an annual regulatory compliance report summarizing compliance-related activities undertaken by us during the year, and the results of all regulatory compliance audits conducted during the year, and review periodic reports from the chief medical officer regarding the Company's efforts to advance quality patient care and patient safety; and
- monitor and review our programs, policies, and procedures that support and enhance the quality of our medical and rehabilitative care.

In connection with its duties, the committee reviews and evaluates, at least annually, the performance of the committee and its members, may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and perform all acts reasonably necessary to fulfill its responsibilities and achieve its objectives.

Finance Committee

The purpose and objectives of the Finance Committee are to assist our board of directors in the oversight of the use and development of our financial resources, including our financial structure, investment policies and objectives, and other matters of a financial and investment nature. The specific responsibilities of the Finance Committee are to review, evaluate, and make recommendations to the board of directors regarding HealthSouth's:

- capital structure and proposed changes thereto, including significant new issuances, purchases, or redemptions of our securities;
- plans for allocation and disbursement of capital expenditures;
- credit rating, activities with credit rating agencies, and key financial ratios;
- long-term financial strategy and financial needs;
- unusual or significant commitments or contingent liabilities; and
- plans to manage insurance and asset risk.

In addition to its other responsibilities, the committee reviews and evaluates, at least annually, the performance of the committee and its members. In connection with its duties, the committee may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and perform all acts reasonably necessary to fulfill its responsibilities and achieve its objectives.

Nominating/Corporate Governance Committee

The purposes and objectives of the Nominating/Corporate Governance Committee are to assist our board of directors in fulfilling its duties and responsibilities to us and our stockholders, and its specific responsibilities include, among others, to:

- assist the board of directors in determining the appropriate characteristics, skills and experience for the individual members of the board of directors and the board of directors as a whole and create a process to allow the committee to identify and evaluate individuals qualified to become board members;
- make recommendations to the board regarding the composition of each standing committee of the board, to monitor the functioning of the committees of the board and make recommendations for any changes, review annually committee assignments and the policy with respect to rotation of committee memberships and/or chairpersonships, and report any recommendations to the board;
- review the suitability for each board member's continued service as a director when his or her term expires, and recommend whether or not the director should be re-nominated;
- assist the board in considering whether a transaction between a board member and the Company presents an inappropriate conflict of interest and/or impairs the independence of any board member;

- recommend nominees for board membership to be submitted for stockholder vote at each annual meeting of stockholders, and to recommend to the board candidates to fill vacancies on the board and newly-created positions on the board; and
- develop and recommend to the board Corporate Governance Guidelines applicable to the Company that are consistent with applicable laws and listing standards and to periodically review those guidelines and to recommend to the board such changes as the committee deems necessary or advisable.

In connection with its duties, the committee reviews and evaluates, at least annually, the performance of the committee and its members, may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and perform all acts reasonably necessary to fulfill its responsibilities and achieve its objectives. In connection with its duties, the committee may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors, and perform all acts reasonably necessary to fulfill its responsibilities and achieve its objectives.

Compensation of Directors

In 2007, we provided the following annual compensation to directors who are not employees:

Name	**Fees Earned or Paid in Cash ($)**[(1)]	**Stock Awards ($)**[(2)]	**Option Awards ($)**[(3)]	**All Other Compensation ($)**	**Total ($)**
Edward A. Blechschmidt	$120,000	$90,000	–	–	$210,000
John W. Chidsey	23,750	90,003			113,753
Donald L. Correll	105,000	90,000	–	–	195,000
Yvonne M. Curl	95,000	90,000	–	–	185,000
Charles M. Elson	105,000	90,000	–	–	195,000
Jon F. Hanson	195,000	90,000	–	–	285,000
Leo I. Higdon, Jr.	110,000	90,000	–	–	200,000
John E. Maupin, Jr.	105,000	90,000	–	–	195,000
L. Edward Shaw, Jr.	95,000	90,000	–	–	185,000

(1) The amounts reflected in this column are the retainer fees earned for service as a director for 2007, regardless of when such fees are paid. Retainer fees for the first quarter of 2008 are paid in December of 2007.

(2) Each non-employee director received an award of restricted stock units with a grant date fair value of $90,000 (3,881 units), except Mr. Chidsey who received an award of restricted stock units at a later date with a grant date fair value of $90,003 (4,480 units). These awards are fully vested in that they are not subject to forfeiture; however, no shares underlying a particular award will be issued until the director ends his or her service on the board, as further described below under "2004 Amended and Restated Director Incentive Plan" on page 53. In prior years, non-employee directors received awards of restricted stock. The aggregate number of unvested restricted stock awards outstanding at fiscal year end was as follows: Mr. Blechschmidt (530), Mr. Correll (431), Ms. Curl (530), Mr. Elson (530), Mr. Hanson (530), Mr. Higdon (530), Dr. Maupin (530), and Mr. Shaw (431). The value of stock awards listed in this column has been determined based on the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with Financial Accounting Standards Board ("FASB") Statement No. 123 (Revised 2004), *Share-Based Payment*. This dollar amount recognized is the same as the grant date fair value for each award. The assumptions used in the valuation are discussed under the heading "Critical Accounting Policies - Share-Based Payments" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our 2007 Form 10-K.

(3) The aggregate number of option awards outstanding at fiscal year end was as follows: Mr. Hanson (10,000). Other than Mr. Grinney, whose option awards are disclosed under the table entitled "Outstanding Equity Awards at December 31, 2007," no other directors had option awards outstanding at fiscal year end.

Non-employee directors of HealthSouth receive an annual cash retainer of $95,000. In addition to the cash retainer, the chairman of the board of directors and the chairperson of each committee receive additional compensation for his or her service as a chairperson. Currently, the chairman of the board receives an additional $100,000 per year to compensate for the enhanced responsibilities and time commitment associated with that position. The chairperson of the Audit Committee receives an additional $25,000 per year, the chairperson of the Compensation Committee receives an additional $15,000 per year, and the chairpersons of the

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Compliance/Quality of Care Committee, the Finance Committee, and the Nominating/Corporate Governance Committee each receive an additional $10,000 per year.

In addition, under our 2004 Amended and Restated Director Incentive Plan, each non-employee member of the board of directors currently receives an annual grant of restricted stock units valued at $90,000 (or, a similarly valued award of HealthSouth common stock if the director makes a timely election), which will be granted to each director at the time annual equity awards are granted to key employees of HealthSouth, and which units will be settled in shares of HealthSouth common stock six months following the date upon which such director no longer serves on our board of directors. The material features of this plan are described below under "Equity Compensation Plan Information" on page 53.

Mr. Grinney, who is the only director that is also an employee, receives no additional compensation for serving on the board.

Indemnification and Exculpation

We indemnify our directors and officers to the fullest extent permitted by Delaware law. Our certificate of incorporation also includes provisions that eliminate the personal liability of our directors for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involved intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware law (regarding unlawful payment of dividends); or
- for any transaction from which the director derives an improper personal benefit.

We have also entered into agreements with certain of our directors and executive officers contractually obligating us to provide this indemnification to them. We believe these provisions and agreements are necessary to attract and retain qualified people and so that they will be free from undue concern about personal liability in connection with their service to HealthSouth.

AUDIT COMMITTEE REPORT

The board of directors has the ultimate authority for effective corporate governance, including the role of oversight of the management of HealthSouth. The Audit Committee's purpose is to assist the board of directors in fulfilling its responsibilities to the Company and its stockholders by overseeing the accounting and financial reporting processes of HealthSouth, the qualifications and selection of the independent registered public accounting firm engaged as HealthSouth's independent registered public accounting firm, and the performance of HealthSouth's Inspector General, internal auditors and independent registered public accounting firm. The Audit Committee members' functions are not intended to duplicate or to certify the activities of management or the Company's independent registered public accounting firm.

In its oversight role, the Audit Committee relies on the expertise, knowledge and assurances of management, the internal auditors, and the independent registered public accounting firm. Management has the primary responsibility for establishing and maintaining effective systems of internal and disclosure controls (including internal control over financial reporting), for preparing financial statements, and for the public reporting process. PricewaterhouseCoopers LLP, HealthSouth's independent registered public accounting firm, is responsible for performing an independent audit of HealthSouth's consolidated financial statements, for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles, and for expressing its own opinion on the effectiveness of the Company's internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. In this context, the Audit Committee:

- reviewed and discussed with management and PricewaterhouseCoopers LLP the fair and complete presentation of the Company's consolidated financial statements and related periodic reports filed with the SEC (including the audited consolidated financial statements for the year ended December 31, 2007, management's assessment of the effectiveness of the Company's internal control over financial reporting, and PricewaterhouseCoopers LLP's audit of the Company's internal control over financial reporting);
- discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T; and
- received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the PCAOB in Rule 3600T, and discussed with PricewaterhouseCoopers LLP its independence from HealthSouth and its management.

The Audit Committee also discussed with the Company's internal auditors and PricewaterhouseCoopers LLP the overall scope and plans for their respective audits; reviewed and discussed with management, the internal auditors, and PricewaterhouseCoopers LLP the significant accounting policies applied by the Company in its financial statements, as well as alternative treatments and risk assessment; and met periodically in executive sessions with each of management, the internal auditors, and PricewaterhouseCoopers LLP.

The Audit Committee was kept apprised of the progress of management's assessment of the Company's internal control over financial reporting and provided oversight to management during the process. The Audit Committee also provided oversight and reviewed with management the Company's initiatives to remediate its material weakness in the Company's internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002

Based on the reviews and discussions described above, the Audit Committee recommended to the board of directors, and the board of directors approved, that the audited consolidated financial statements for the year ended December 31, 2007, and management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC. The Audit Committee has selected PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2008.

Audit Committee

Edward A. Blechschmidt (Chairman)

John W. Chidsey

Donald L. Correll

COMPENSATION COMMITTEE MATTERS

Scope of Authority

The Compensation Committee acts on behalf of the board of directors to establish the compensation of executive officers of the Company and provides oversight of the Company's compensation philosophy. The committee also acts as the oversight committee with respect to the Company's equity compensation, bonus and other compensation plans covering executive officers and other senior management. In overseeing those plans, the committee may delegate authority for day-to-day administration and interpretation of the plans, including selection of participants, determination of award levels within plan parameters, and approval of award documents, to officers of the Company. However, the committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the executive officers.

Role of Compensation Consultant

To assist the Compensation Committee in its review and determination of executive compensation levels, the Compensation Committee engaged Mercer until April 2007. At that time, the principal consultant working with the Compensation Committee on this engagement left Mercer and joined Cook & Co. The

Compensation Committee chose to continue its relationship with this individual consultant and engaged Cook & Co. from that time to present. The relationships of Mercer and of Cook & Co. with HealthSouth consisted entirely of executive compensation-related work. Any other use of the Compensation Committee's consultant requires the prior approval of the Compensation Committee. Mercer did assist management, with the Compensation Committee's prior approval, with a review of the 2006 Compensation Discussion and Analysis for the 2007 proxy statement. Other than this limited project, Mercer provided services only to our Compensation Committee, and did not provide assistance to HealthSouth in any other capacity. The Compensation Committee has the sole authority over the engagement, or the release of the engagement, of its compensation consultant. The Compensation Committee has instructed Cook & Co. to:

- assist in evaluating executive compensation programs and setting executive officers' compensation;
- advise the Compensation Committee on compensation trends and best practices;
- provide third party input on plan design, selection of performance measures for annual and long-term incentives and the reasonableness of individual compensation awards; and
- review the content of this Compensation Discussion and Analysis.

Management has separately engaged Towers Perrin as its compensation consultant; the scope of that engagement includes review of and assistance with the Compensation Discussion and Analysis on page 30.

Role of Executive Officers and Management

The chief executive officer and the senior vice president of human resources formulate recommendations on matters of compensation philosophy, plan design, and the specific compensation recommendations for executive officers (other than the chief executive officer). The chief executive officer gives the Compensation Committee a performance assessment and compensation recommendation for each of the other named executive officers. Those recommendations are then considered by the committee with the assistance of its compensation consultant. The chief executive officer and the senior vice president of human resources generally attend Compensation Committee meetings but are not present for the independent sessions or for any discussion of their own compensation. The Compensation Committee, together with the other independent directors and without input from the chief executive officer, determines the chief executive officer's base compensation and incentive compensation.

Compensation Committee Interlocks and Insider Participation

None of the current members of our Compensation Committee is an officer or employee of HealthSouth. None of our current executive officers serves or has served as a member of the board of directors or compensation committee of any other Company that had one or more executive officers serving as a member of our board of directors or Compensation Committee.

Compensation Committee Report

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K, and, based upon such review and discussions, the Compensation Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee

Leo I. Higdon, Jr. (Chairman)

Yvonne M. Curl

L. Edward Shaw, Jr.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

The key objectives of our executive compensation program are to attract, motivate and retain executives who will maintain HealthSouth's position as the preeminent provider of inpatient rehabilitative services and enhance long-term stockholder value. Over the past several years, circumstances required our executives to devote a significant portion of time and attention to matters outside the ordinary course of our business – what we previously have referred to as the "rocks in the road." Accordingly, our 2006 executive compensation program placed a special emphasis on ensuring management stability and compensating our executives for those out-of-the-ordinary responsibilities. However, 2007 marked the end of most of the legal, financial and operational "rocks in the road" we have faced since March 2003. Our executive compensation program for 2007 recognized that the Company was progressing through a transition period but began to tie compensation decisions more directly to improved operating performance. Thus, the goals of our 2007 executive compensation program were to maintain stability in the management team and complete the major repositioning of HealthSouth that we have been engaged in for several years. In concert with these goals, our compensation program is designed to:

- reward executives based on Company performance, the creation of stockholder value and individual performance;
- provide executives with the opportunity to earn a competitive compensation package that includes base pay, incentive pay and equity opportunity; and
- align executive incentives with the long-term interests of our stockholders.

Our 2008 executive compensation program will focus on linking executive compensation to total stockholder return and improved operating performance, as our transition period comes to a close and we move to a period of business growth and success.

Business Challenges and Achievements

HealthSouth's executive compensation program should be viewed in light of the recent challenges HealthSouth has faced, as well as our repositioning process. Over the past several years, we have focused substantial time and attention responding to various legal, financial, and operational challenges resulting from the impact of the financial fraud perpetrated by certain members of our prior management team, and the negative impact of the Medicare regulation commonly referred to as the "75% Rule" which is described in greater detail below. The fraud was uncovered as a result of a series of governmental investigations into our public reporting and related matters, of which we became aware beginning in late 2002 and early 2003. The 75% Rule was modified and re-implemented in May 2004. HealthSouth's 2007 compensation program was established against the backdrop of these challenges and the related accomplishments listed below. HealthSouth believes these significant accomplishments made during 2006 directly reflect upon the performance of our executive management team.

- We completed several recapitalization transactions resulting in, we believe, reduced refinancing risk, enhanced operational flexibility, an improved credit profile, and the opportunity to pre-pay a significant portion of our long-term debt.
- We received court approval of our settlement with the lead plaintiffs in the federal securities class actions and derivative litigation, as well as with our insurance carriers, relating to claims filed against us, certain of our former directors and officers, and certain other parties. This settlement disposed of the last of the major litigation pending against us.
- We reached a non-prosecution agreement with the United States Department of Justice (the "DOJ") with respect to the accounting fraud committed by members of our former management.
- We created and implemented comprehensive compliance and internal controls programs, in conjunction with the remediation of numerous internal control weaknesses.

- We recruited additional members of our senior management team.
- We began exploring a range of strategic alternatives, including the potential divestiture of our non-core businesses, in order to reduce the Company's financial risk related to our high degree of debt and reposition the Company as a "pure play" provider of post-acute health care services.
- In 2003, after the SEC issued an Order of Suspension of Trading due to the fraud perpetrated by prior management, the NYSE suspended trading in our common stock and eventually delisted our common stock. As a result of the new management team's leadership and the progress made in our corporate and financial recovery over a three-year period, the NYSE relisted our stock on October 26, 2006.

In 2007, we faced other internal and external challenges outside of the ordinary course of our business. The Compensation Committee, in exercising its discretion to calibrate incentive payouts to the named executive officers ("NEOs"), considered that the following achievements added substantial potential value for HealthSouth stockholders by improving the strength of the balance sheet:

- *Divesting non-core businesses.* As noted above, during 2006 we began exploring alternatives to reduce our long-term debt and reposition our primary focus on the post-acute care sector. As a result, we effected the following transactions during 2007 to divest our non-core businesses:

Division	**Buyer**	**Close Date**	**Net Proceeds** (1)
Outpatient	Select Medical Corporation	May 1, 2007(2)	$223.8 million
Surgery Centers	An affiliate of Texas Pacific Group	June 29, 2007(2)	$876.9 million
Diagnostic	An affiliate of The Gores Group	July 31, 2007(2)	$39.7 million

(1) After deducting deal and separation costs, purchase price adjustments, and any debt assumed by the respective purchaser; also includes net proceeds received for facilities sold after the initial close date.
(2) Other than with respect to certain facilities for which regulatory approvals had not yet been received.

The proceeds from the divestitures were used to reduce debt, which allows us to set the platform to pursue growth opportunities in inpatient rehabilitative care and complementary post-acute businesses in the future. We believe the divestitures were successful in terms of the timeliness of closing each transaction, especially in light of the difficulties in the current credit markets, as well as the competitive amounts we received from each transaction.

- *Mitigating the 75% Rule.* Throughout 2007, we were obligated to continue to reduce or refocus admissions at most locations in response to the scheduled phase-in of the 75% Rule, which imposed restrictions on the types of medical conditions that can be treated in an inpatient rehabilitation setting. The negative impact of the 75% Rule on all inpatient rehabilitation providers, including our hospitals, was significantly greater than the Centers for Medicare and Medicaid Services ("CMS") originally envisioned when the rule was implemented in 2004. Full implementation of the 75% Rule would have resulted in a decline in admissions into our hospitals and caused a loss of revenues for HealthSouth. Accordingly, responding to the impact of the 75% Rule was a top priority for HealthSouth as a whole and for all executive officers. HealthSouth's ability to not only retain, but also provide incentives to, its executive officers was crucial to HealthSouth's management of the phase-in of the 75% Rule. As such, the effective strategic mitigation of the 75% Rule was a performance goal for all NEOs in 2007.

Due in part to the leadership of our management team and industry efforts, Congress permanently froze the implementation of the 75% Rule at the 60% threshold level, as part of the Medicare, Medicaid, and State Children's Health Insurance Program (SCHIP) Extension Act of 2007 signed into law on December 29, 2007, P.L. 110-173 (the "2007 Medicare Act").

- *Completing final payments of settlement obligations.* In a settlement entered into in 2004 with the DOJ, HHS-OIG and CMS, we agreed to make cash payments in the aggregate amount of $325 million, plus interest. In the fourth quarter of 2007, we made our final payments under this settlement as well as the final payments related to our SEC settlement.

- *Resolving tax matters.* We settled all federal income tax issues outstanding with the Internal Revenue Service (the "IRS") for the tax years 1996 through 1999, and the Joint Committee of Congress reviewed and approved the associated tax refunds due to the Company. In October 2007, HealthSouth received a $440 million tax recovery from the IRS for overstatements of taxable income attributable to financial fraud perpetrated by members of prior management. This recovery included a $296 million tax refund for the years 1996 through 1999 and $144 million of associated interest income. The majority of the proceeds were used to reduce debt as part of our deleveraging plan.
- *Reducing leverage and increasing liquidity.* We are highly leveraged. Our high level of debt increases our cost of capital and decreases our net income. In addition to debt service, we also had cash obligations we were required to meet as a result of settlements with various federal agencies as mentioned above. Our leverage and liquidity improved during 2007. As noted above, in 2007 we used the net proceeds from the divestitures of our surgery centers, outpatient and diagnostic divisions and the majority of our federal income tax recovery to pay down a significant amount of debt, and we also made final settlement payments to the SEC, DOJ, HHS-OIG and CMS. Furthermore, we anticipate receiving cash proceeds from the expected sale of our corporate campus and additional income tax recoveries which will be used to pay-down our long-term debt.
- *Completing final DOJ settlement.* On December 14, 2007, we announced we had signed a definitive agreement with the DOJ on behalf of the HHS-OIG to resolve issues associated with various practices under HealthSouth's previous management team relating to health care regulatory compliance, which were discovered and self-disclosed by the new management team. These payments fulfilled HealthSouth's last settlement obligations to the SEC, DOJ, HHS-OIG and CMS related to the fraud perpetrated by members of our prior management.
- *Remediating material weakness.* In the fourth quarter of 2007, we completed the remediation of our last material weakness, relating to our accounting for income taxes. Over the past few years, we have spent a significant amount of time and financial resources to design, implement, and test internal controls. We have improved our internal control over financial reporting and completed the remediation of all material weaknesses in internal controls that we identified in previous years.
- *Reducing corporate overhead.* We continue to focus on reducing corporate overhead expenses. We reduced our corporate overhead expenses from $144.5 million for the year ended December 31, 2006 to $134.8 million for the year ended December 31, 2007. This reduction is due in part to the divestitures of our non-core businesses. Our goal is to bring corporate expenses to approximately 4.75% of net operating revenues by the end of 2008.
- *Selling corporate campus.* As previously announced, we have agreed to sell our corporate campus to Daniel Corporation. A definitive agreement was signed on January 23, 2008, and closing is expected to occur in the first quarter of 2008. The net proceeds will be used to reduce long-term debt. This transaction will reduce our corporate overhead costs.

Our executive compensation program for 2007 recognized these legal, financial, regulatory and operational challenges were outside the ordinary course of our business and were particular to the Company at this time in our history. HealthSouth believes the leadership and performance of its executive management team has allowed us to overcome each of these significant challenges. The ability to retain our executive officers while we overcame the "rocks in the road" resulting from prior management's misconduct was central to the Company's compensation practices for 2007. Management and the Compensation Committee believe the actions and achievements over the past four years have positioned the Company for the future and will translate to positive stockholder returns on a go-forward basis.

Determining Compensation

The Compensation Committee reviews each element of compensation for our executives. The elements of executive compensation are described below under "Elements of Executive Compensation." When setting compensation targets each year, the Compensation Committee reviews and considers, among other things, executive market data on total direct compensation ("TDC") (which consists of base salary, annual cash incentives, and long-term equity incentives), an assessment of the Company's performance, the executive's level of responsibility, anticipated contributions to the Company, competitive practices, and certain factors relating to equity awards, such as the amount of awards generally available for grant under Company plans, potential dilution and expense relating to such grants. The Compensation Committee does not rely solely on predetermined formulas or a limited set of criteria when it evaluates the performance of our executive officers. Rather, the Compensation Committee exercises its business judgment in applying quantitative and qualitative approaches, as described below in this Compensation Discussion and Analysis, to the facts and circumstances associated with each executive.

The Compensation Committee has authority to make decisions on base salary, annual (cash) incentives and long-term (equity) incentives for all of our NEOs except for the chief executive officer. For our chief executive officer, the Compensation Committee makes a recommendation on those compensation elements to the independent directors of our board of directors, who then determine and approve the final terms of the chief executive officer's compensation. Both the Compensation Committee and the board of directors review and discuss the chief executive officer's compensation package during independent sessions. In determining the compensation package for our chief executive officer, the Compensation Committee and the independent directors of the board of directors assess the individual performance of the chief executive officer and the financial and operating performance of HealthSouth, as described on page 33.

From time to time, we review data from several executive compensation surveys, including those published by Mercer and Towers Perrin. Such surveys provide summarized data on levels of base salary, target annual incentives, and stock-based and other long-term incentives. These surveys also provide information on compensation practices, such as the prevalence of types of compensation plans and the proportions of the components of the TDC package. The surveys are supplemented by other publicly available information and input from the current Compensation Committee consultant on other factors such as recent market trends. See *Compensation Committee Matters*, "Role of Compensation Consultant" on page 29 of this proxy statement for information regarding our use of compensation consultants.

During the year, the Compensation Committee also specifically reviews performance and compensation of a number of other health care companies, as points of reference and comparison to our executive compensation. However, in view of the fact that HealthSouth has been in a turnaround and restructuring mode, for 2007 our Compensation Committee recognized that any fixed peer group would have limited comparative value. Although we have reduced our leverage with the divestitures of our non-core operating divisions and our federal income tax refund, we remain a highly leveraged Company. In fact, we are more highly leveraged than other companies in the health care industry, further limiting the comparative value that any fixed peer group would provide for 2007. Going forward, we will establish a peer group of companies appropriate for comparison to HealthSouth in terms of industry segment, revenue size, leverage and market capitalization.

Our executive compensation program targets TDC between the 50^{th} and 75^{th} percentiles of the competitive market, which is based on survey data provided by Mercer from their proprietary database for health care companies with certain levels of annual revenues. For all NEOs in 2007, with the exception of our chief executive officer, Mr. Jay Grinney, and our chief financial officer, Mr. John L. Workman, the survey group consisted of health care companies with approximately $4.5 billion in annual revenues. This survey group was established before the divestitures of our non-core businesses. After the divestitures, as part of the review of their employment arrangements, Mr. Grinney and Mr. Workman's survey group was revised to be comprised of health care companies of approximately $2.5 billion in annual revenues. Similarly, all future compensation studies will take account of the revenue size of the Company at the point in time the study is conducted. Going forward, we will continue to adjust our survey group as appropriate to obtain accurate market comparisons.

We do not specifically target the percentile range for each component of compensation, but do analyze the components for reasonableness and competitiveness. With the assistance of Mercer and Cook & Co., we compared the components of TDC for our executive officers – base pay, incentive pay and equity value – against the survey group to determine our level of competitiveness. The TDC opportunity falls within our objective of the 50^{th} to 75^{th} percentile of the survey group, and actual TDC for 2007 falls within that range. We also note that HealthSouth made its 2007 TDC arrangements recognizing that, because we have been in a restructuring mode, HealthSouth has not made available the types of longer-term benefit programs that often are available to executives at other companies, such as pension, deferred compensation or executive retirement plans. As such, we placed more emphasis on cash compensation elements in 2007.

At the end of the year, our chief executive officer makes recommendations to the Compensation Committee concerning the compensation of the other executive officers and of the senior management team. Our chief executive officer provides complete evaluations for executive officers and for certain senior vice presidents. The Compensation Committee considers the chief executive officer's recommendations based on each executive's individual responsibility, performance and overall contribution. The Compensation Committee, pursuant to its charter, is responsible for reviewing the corporate objectives relevant to each NEO's compensation, and it generally has the discretion, in light of achievement of those objectives, to make upward or downward adjustments to elements of compensation.

The Compensation Committee reviewed tally sheets incorporating all components of the executive officers' compensation for 2007, including salary, annual and long-term incentive pay, value of executive benefits and perquisites, as well as potential payout obligations under HealthSouth's Transitional Severance Plan and Change in Control Benefits Plan, as described on pages 41-42. With the help of its consultant, and in consultation with the board of directors, the Compensation Committee determined our 2007 executive compensation was reasonable and consistent with HealthSouth's compensation philosophy and objectives.

Elements of Executive Compensation

The elements of our executive compensation program include:

- base salary
- annual incentives (cash)
- long-term incentives (equity)
- executive benefits

In general, we aim to maintain a balance between cash and equity compensation, with a significant portion of cash compensation being performance-based. As an executive's responsibility increases, his or her total compensation mix will generally include a greater percentage of equity as well as a greater percentage of total compensation at risk. See the pie charts below for an illustration of the compensation mix for our chief executive officer and an average compensation mix for executive vice presidents currently employed with HealthSouth.[5]

Mr. Jay Grinney

President and Chief Executive Officer **Executive Vice Presidents**

Base Salary

A number of factors are considered in determining executive base salaries, including the executive's scope of responsibilities, an assessment of the executive's performance, the executive's experience, time in the position, internal equities and a competitive market assessment of similar roles at other similar companies. Base salaries are reviewed once per year and may be adjusted after considering the above factors. Any changes to the base salaries of our NEOs were made effective in the first or second quarters of 2007.

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5 The compensation mixes for Michael Snow and John Markus are not representative of the executive vice president mix as neither received compensation for the full year. Mark Tarr's compensation mix is not representative of the executive vice president mix as he was promoted during the year from president of the inpatient division to executive vice president, operations.

Annual Incentives (Cash)

On February 28, 2007, the board of directors approved the 2007 Senior Management Bonus Program to incentivize and reward our executives and officers for annual performance. The 2007 Senior Management Bonus Program consisted of evaluating performance against three sets of objectives, as described below: (1) quantitative objectives; (2) individual objectives; and (3) qualitative objectives. In contrast to our 2006 Senior Management Bonus Program, which placed a significant emphasis on ensuring management stability, the 2007 Senior Management Program tied more compensation decisions directly to improved operating performance. This enhanced focus on operational performance is reflected in various changes to the quantitative and qualitative objectives of the plan: volume growth was added to the Company's quantitative objectives targets; and the qualitative objectives changed to include outperforming stock price performance of a specified group of comparable health care companies, identifying corporate cost-reduction opportunities, consummating a minimum number of development projects and improving accounts receivable collection. The 2007 Senior Management Bonus Program and any payout are subject to the full discretion of the independent directors of the board of directors, based on the recommendations of the Compensation Committee, all of whom are also independent directors.

Under the Senior Management Bonus Program, we first calculate a target cash incentive amount for each executive officer, based upon a specific percentage of his base salary, as listed in the "Target Cash Incentive as a % of Salary" column in the table on page 37. These target cash incentives are established through an analysis of compensation from comparable positions in the health care industry.

We then establish certain quantitative objectives for the Company. These objectives and relative weights are determined for each officer on the date the officer began participating in the program. The Company's 2007 Senior Management Bonus Program's quantitative objectives, relative weightings, and completion status as of December 31, 2007 are summarized in the table below.

Company Quantitative Goal	Relative Weighting	Completion Status
1. Meet or exceed Adjusted Consolidated EBITDA target of $324.4 million.	50%	1. Actual result was $323.2.
2. Meet or exceed margin rate target of 17.4%.	20%	2. Actual result was 18.4%.
3. Increase discharge growth.	20%	3. Actual result was 0.04% increase.
4. Remediate all material weaknesses and have no new material weaknesses.	10%	4. No material weaknesses.

In 2007 and in prior years, the quantitative objectives under our annual incentive programs included specific Adjusted Consolidated EBITDA[6] targets. Because our lenders view and utilize Adjusted Consolidated EBITDA as a liquidity measure, Adjusted Consolidated EBITDA is the key component of certain material covenants contained within our 2006 Credit Agreement, which represents a substantial portion of our capitalization. Accordingly, for the transitional year of 2007, HealthSouth continued to consider Adjusted Consolidated EBITDA a key factor, among other measures, in evaluating executive performance. Our goal is to focus on additional financial targets, including earnings per share and free cash flow, in 2008.

For each executive, we also specify three to five individual objectives, weighted according to importance, which are determined between each participant and his or her immediate supervisor. The individual objectives reflect both objectives specific to each NEO's position and also Company objectives. These individual objectives are reviewed for alignment with Company quantitative and qualitative objectives by the Compensation Committee. The Company must achieve at least 80% of the Adjusted Consolidated EBITDA target before any payments are made for individual objectives.

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6 In general terms, the definition of Adjusted Consolidated EBITDA, per our Credit Agreement (as defined in our 2007 Form 10-K), allows us to add back to Adjusted Consolidated EBITDA all unusual non-cash items or non-recurring items. These items include, but may not be limited to, (1) expenses associated with government, class action, and related settlements, (2) fees, costs, and expenses related to our recapitalization transactions, (3) any losses from discontinued operations and closed locations, (4) charges in respect of professional fees for reconstruction and restatement of financial statements, including fees paid to outside professional firms for matters related to internal controls and legal fees for continued litigation defense and support matters discussed in Note 21, *Contingencies and Other Commitments*, to the consolidated financial statements accompanying our 2007 Form 10-K, (5) compensation expenses recorded in accordance with FASB Statement No. 123(R), (6) investment and other income (including interest income), and (7) fees associated with our divestiture activities. See the discussion under the heading "Liquidity and Capital Resources – Adjusted Consolidated EBITDA" in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our 2007 Form 10-K, for a reconciliation of Adjusted Consolidated EBITDA to net income (loss) and cash provided by (used in) operating activities.

Relative weightings of the quantitative goals and individual goals are then set for each executive. These weightings take into account the executive's position in the Company, with the targets for executives with strategic responsibilities consisting of a higher Company objectives weighting. For example, Mr. Grinney, as chief executive officer, is closely involved with the strategy of the Company; therefore, 80% of his target cash incentive is based on Company quantitative objectives, and only 20% on individual objectives. The table below summarizes the target cash incentive and relative weightings of quantitative and individual objectives for each NEO under the 2007 Senior Management Bonus Program:

		Relative Weighting as a % of Target Cash Incentive		
Named Executive Officer	Target Cash Incentive as a % of Salary	Company Quantitative Objectives	Divisional Quantitative Objectives	Individual Objectives
Jay Grinney	100%	80%	N/A	20%
John L. Workman	70%	70%	N/A	30%
John P. Whittington	60%	60%	N/A	40%
Mark J. Tarr[7]				
3 mo. as president of inpatient division	60%	20%	60%	20%
9 mo. as executive vice president, operations	60%	60%	N/A	40%
Michael D. Snow	80%	70%	N/A	30%
John Markus	60%	60%	N/A	40%

After the close of the year, the Compensation Committee assesses performance against the Company quantitative, divisional quantitative (for Mr. Tarr only) and individual objectives to determine a weighted average result, or a percentage of each executive's target incentive that has been achieved, for each of those objectives. The weighted average result corresponds with a particular cash incentive payout level, as set forth in the table below. To reward exceptional performance, the Compensation Committee created an opportunity for the NEOs to receive a "maximum payout level" in the event actual results, as calculated in the weighted average, exceed the Company quantitative objective targets. This maximum payout level occurs when the weighted average result is greater than or equal to 115% of the target objective. For all NEOs, with the exception of Mr. Grinney and Mr. Workman, this maximum payout level equals 150% of each NEO's target cash incentive. As the employment agreements of Mr. Grinney, our chief executive officer, and Mr. Workman, our chief financial officer, expired in 2007, their maximum payout levels were reviewed and increased to 200% of their target cash incentive, as shown in the table below. This increase in maximum opportunity is supported as competitive practice by a market study conducted by management's consultant in which all elements of senior officer compensation were analyzed. This analysis compared competitiveness of total compensation (base pay, cash incentive opportunity and equity value) to comparable positions across industries (or comparable positions in the health care industry if the position was specific to the health care market). The study revealed that current cash incentive target percentages were competitive with the market; however, the maximum opportunity (150% of target cash incentive) was below market. In conjunction with the Committee's consultant, management recommended an increase in the maximum opportunity to 200% of target cash incentive for all senior vice presidents and above in order to align with the findings of the study. The Compensation Committee approved this recommendation at its January 28, 2008 meeting to be effective for the 2008 Senior Management Bonus Plan.

Outlined in the table below are the weighted average result levels and corresponding payout target multipliers for plan year 2007. It is important to note the following:

- If results attained are less than threshold (85% of the target goals for EBITDA, margin rate and same-store discharge growth), then no payout for Company quantitative objectives occurs.
- Attaining the threshold level of weighted average results (85% of targeted goals) will yield a 50% payout of the targeted percentage of base pay.

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[7] Prior to October 2007, Mark J. Tarr was the president of our inpatient division. At that time he became executive vice president-operations., effective retroactively (for compensation purposes) to the beginning of the second quarter in recognition that he had been functioning in that capacity since that time To incentivize Mr. Tarr prior to the divestitures, the Company assigned 60% of his target cash incentive to the financial performance of the inpatient division. After his promotion, Mr. Tarr's target cash incentive consisted of Company quantitative and individual objectives only. Beginning in 2008, no NEO will have divisional quantitative objectives.

- As weighted average results increase above the threshold, a corresponding targeted percentage of base pay will be awarded. In other words, levels listed are on a continuum, and interpolation occurs to determine the achievement amount between two levels.[8] For example, Mr. Grinney's total cash incentive is equal to 100% of his base salary, or $1,000,000. Achievement of Company quantitative objectives accounts for 80% of his total cash incentive, which could equal up to $800,000 if 100% of Company quantitative objectives are met. For 2007, Mr. Grinney's payout for Company quantitative objectives equaled 117.5% of a possible $800,000, therefore totaling $940,000.

	2007 Payout (% of Target)	
Weighted Average Results	CEO & CFO	Other NEOs
Maximum ≥ 115%	200%	150%
Target = 100%	100%	100%
Threshold = 85%	50%	50%
<85%	0%	0%

The same analysis is performed for payout of divisional quantitative objectives (for Mr. Tarr only) and for individual objectives for all NEOs. The payouts under the Company quantitative, divisional quantitative (for Mr. Tarr only) and individual objectives are summed to a total payout figure that may be adjusted as appropriate for qualitative objectives, as described below.

The Compensation Committee and the board of directors believe that quantitative objectives and results alone do not always provide a complete picture of overall performance. Therefore, once the payout level for quantitative objectives and individual goals is determined, the Compensation Committee then uses achievement of certain qualitative objectives to adjust overall annual incentive payouts if appropriate. The Compensation Committee and board of directors believe the total performance of the Company is not always strictly a function of quantitative measures, therefore the appropriateness of the payouts calculated under the quantitative and individual portions are further reviewed against these qualitative objectives. However, as noted above, if the weighted average result relative to Company quantitative objectives is less than 85%, none of the target cash incentive is paid, even if all qualitative objectives are met. Our qualitative objectives for 2007 and their completion status as of December 31, 2007 are summarized in the table below. Please note that while the Compensation Committee considered achievement of qualitative objectives in overall compensation decisions, it concluded that for 2007, no adjustments for qualitative objectives should be made, as the Company fell short of some objectives and exceeded expectations on others.

Qualitative Objectives	Completion Status
1. Outperform stock price performance of a specified group index of comparable health care companies. [9]	1. The stock price of HealthSouth Corporation was $22.65 on December 31, 2006 and $21.00 on December 31, 2007. The performance of the group index was $27.08 on December 31, 2006 and $38.17 on December 31, 2007.
2. Complete the divestiture of the outpatient, surgery centers and diagnostic divisions.	2. Outpatient division sold to Select Medical Corporation on May 1, 2007; surgery centers division sold to an affiliate of Texas Pacific Group on June 29, 2007; and diagnostic division sold to The Gores Group on July 31, 2007.
3. Sell the corporate campus.	3. Letter of Intent with Daniel Corporation signed October 22, 2007 and Definitive Agreement signed January 23, 2008. Closing is expected in the first quarter of 2008.
4. Identify cost-reduction opportunities to bring corporate expenses to 4.75% of net operating revenues by the end of 2008.	4. Approved 2008 budget will bring corporate expenses to 4.75% of net operating revenues by the end of 2008.
5. Complete the installation of the PeopleSoft general ledger system.	5. Completed the installation of the PeopleSoft system on December 31, 2007.

[8] Note that for the material weakness objective and the discharge growth objective, there is no interpolation. If the objective is achieved, the payment is 100% for that objective; if it is not achieved, there will be no payment for that objective.

[9] One member of the specified group index was involved in a leveraged buyout in 2007 which had a very positive impact on the stock price.

[10] For Mr. Tarr, the prorated amount is based on his first quarter employment as the president of the inpatient division, and the remaining three quarters of 2007 as executive vice president, operations. Mr. Snow received a prorated amount based on his employment as chief operating officer for the first six months of 2007.

6. Consummate a minimum number of development projects in 2007 and identify a certain number of additional projects, in areas targeted by the Company for growth, to be consummated by the end of the third quarter of 2008.	6. Entered into a joint venture for a Tennessee hospital and commenced new hospital developments in Virginia and Arizona.
7. Develop a diversity program to ensure racial and gender diversity in HealthSouth's management ranks and among its vendors and suppliers.	7. Formed a diversity committee to review applicable HealthSouth policies and to create a baseline database. Our recruiting department has implemented a program seeking diverse recruitment at select universities. A complete diversity plan will be finalized by the end of the second quarter of 2008.
8. Achieve improvement in accounts receivable days.	8. Accounts receivable days improved from 49.94 days for the year ended December 31, 2006 to 47.44 days for the year ended December 31, 2007.

Based on the Compensation Committee's assessment of the achievement of the quantitative, individual and qualitative objectives, the following payments were recommended to the board of directors. Taking into account the recommendations of the Compensation Committee, the independent members of our board of directors made the final determination at their February 2008 meeting regarding cash incentive payments under the 2007 Senior Management Bonus Program. These amounts are listed below and in the Summary Compensation Table on page 46. For employees of our divested divisions who participated in the 2007 Senior Management Bonus Program, HealthSouth made pro-rata cash payments at the time of each divestiture. Mr. John Markus, former executive vice president and chief compliance officer, did not receive payment under this plan in 2007.

2007 Senior Management Bonus Program Payouts

Named Executive Officer	**Title**	**Company Quantitative Objective Portion($)**	**Regional Quantitative Objective Portion ($)**	**Individual Objective Portion ($)**	**Prorate Amount ($) (Based on Date in Job)[10]**	**Qualitative Objective Adjustment ($)**	**Total Payout ($)**
Jay Grinney	President and Chief Executive Officer	940,000	N/A	180,000	N/A	0	1,120,000
John L. Workman	Executive Vice President and Chief Financial Officer	339,693	N/A	123,900	N/A	0	463,593
John P. Whittington	Executive Vice President, General Counsel and Secretary	194,126	N/A	124,800	N/A	0	318,926
Mark J. Tarr	President, Inpatient Division	44,028	123,040	42,457	52,381	0	242,817
	Executive Vice President, Operations	154,554	N/A	99,360	190,436	0	
Michael D. Snow	Executive Vice President and Chief Operating Officer	444,666	N/A	107,200	275,933	0	275,933

Long-term Incentives (Equity)

Our general practice has been to grant restricted stock under our 1998 Restricted Stock Plan and to award options under our 2005 Equity Incentive Plan to our executives and certain other employees. The Compensation Committee believes that such grants help focus executive attention on managing the business effectively and ensuring that operational decisions are based on considerations that benefit the Company and our stockholders over the long-term.

Restricted Stock Awards

Restricted stock awards generally. Restricted stock awards are granted at the discretion of the independent directors of the board of directors, based on recommendations from the Compensation Committee. We have previously granted to our executive officers restricted stock awards for shares of HealthSouth common

stock that will only be earned if the individual continues to be employed by HealthSouth through the term of a cliff vesting schedule, typically three years from the grant date of the award. The purpose of these grants was to align executive compensation with increased stockholder values, provide retention incentives and enhance executive stock ownership.

Transactional closing bonuses in 2007. In consideration of their efforts with, and success in, completing our divestitures, restricted stock was awarded to Mr. Grinney, Mr. Workman and Mr. Whittington as closing bonuses in 2007. These shares will vest in their entirety on the first anniversary of those awards, provided those individuals continue to be employed by HealthSouth. These closing bonuses were one-time-only, transaction-specific awards that are not part of these officers' ongoing direct compensation.

Implementation of performance-based conditions. The Company believes that, during the challenges we faced following 2003 and our repositioning phase, executive retention was critical. For this reason, our Compensation Committee historically has utilized time-based restrictive stock. The restricted stock award to Mr. Grinney as of November 1, 2007 is subject to a 30-month vesting schedule plus certain stock-price performance conditions, as described on page 44 The restricted stock award to Mr. Workman as of December 20, 2007 is subject to a 33-month vesting schedule plus certain stock-price performance conditions, also as described on page 44.

Beginning in 2008, all annual equity grants to executive officers will be performance-based. The Compensation Committee believes performance-based vesting conditions for future restricted stock awards to executives are appropriate and align executives' goals with stockholders.

Option Awards

Each stock option permits the executive officer, generally for a period of ten years, to purchase one share of HealthSouth common stock at the exercise price, which is the closing market price on the date of the grant. Options vest ratably in equal annual increments over a specified period of time, typically three years from the grant date. Options are granted at the discretion of the independent directors of the board of directors based on recommendations from the Compensation Committee.

Equity Grant Timing

Our general practice has been to grant equity at the February board meeting, based on recommendations of the Compensation Committee. We made grants in addition to the regular February grants in the following situations: (1) the equity grants made on November 17, 2005 were one-time only grants under the 2005 Key Executive Incentive Program (outlined on page 42) that coincided with the program's adoption by our board of directors; (2) some new employees who were hired after the February 2007 grants received pro-rata equity incentive grants at the time of their hire; (3) the Company granted transactional closing bonuses, in the form of restricted stock awards, to Mr. Grinney, Mr. Workman and Mr. Whittington upon the closing of the last of our divestitures in 2007; and (4) we made additional performance-based incentive grants to Mr. Grinney in the third quarter of 2007 and to Mr. Workman in the fourth quarter of 2007. The equity grants approved in February 2007 were priced and issued as of March 2, 2007, to coordinate with the release of our earnings results for the fourth quarter of 2006. Our Compensation Committee approved certain equity grants on February 20, 2008. However, these grants were not priced and issued until February 28, 2008, after two days had elapsed from the filing of our 2007 Form 10-K for fiscal year 2007. We anticipate continuing our general practice of approving equity awards and grants at the February meeting of our board of directors, but having those grants priced and issued after the release of our earnings for the fourth quarter and the filing of our 2007 Form 10-K.

Executive Benefits

In 2007, our executives were eligible for the same benefits offered to other employees, including medical and dental coverage. Executives are also eligible to participate in HealthSouth's 401(k) plan, subject to IRS limits on contributions. In addition to the standard benefits offered to all employees, we pay our executives' group term life premiums and also provide Mr. Grinney with additional long-term disability coverage. Other than the plans referenced here, in 2007 the Company did not provide its executives with compensation in the form of a pension plan, non-qualified deferred compensation plan, or a retirement plan. In 2008, executives and certain other officers will be eligible to participate in a non-qualified deferred 401(k) plan which mirrors the current qualified 401(k) plan. The Company will also explore other non-qualified deferred opportunities in 2008.

Perquisites Philosophy

HealthSouth does not have any perquisite plans or policies in place for its executive officers. The board of directors, the Compensation Committee, and executive management do not believe such personal benefit plans are necessary for HealthSouth to attract and retain executive talent. Any perquisites received by our executive officers do not reach the required level for separate quantification and description but are included in the “All Other Compensation Column” in the Summary Compensation Table on page 46.

Severance Arrangements

Executive Severance Plan

In June 2007, the Compensation Committee approved an Executive Severance Plan for executives and senior vice presidents to help retain qualified officers and provide financial security to certain officers whose employment with HealthSouth may be terminated under circumstances entitling them to severance benefits.

Under the plan, if a participant’s employment is terminated by the participant for good reason, by HealthSouth other than for cause, by HealthSouth by reason of the participant’s disability or as a result of the participant’s death (all defined in the severance plan), then the participant is entitled to receive a cash severance payment, health benefits, and such other benefits as may be determined by the plan’s administrator. The cash severance payment for our executive officers would be two times the participant’s annual salary then in effect, plus any accrued but unused vacation and accrued but unpaid salary. This amount is to be paid in a lump sum within 60 days following the participant’s termination date. In addition, the participant or the participant’s dependents continue to be covered by all life, health care, medical and dental insurance plans and programs, excluding disability, for a period of 24 months.

Amounts paid under this plan are in lieu of and not in addition to any other severance or termination payments under any other plan or agreement with HealthSouth. As a condition to receipt of any payment under this plan, the participant must waive any entitlement to any other severance or termination payment by HealthSouth, including any severance or termination payment set forth in any employment arrangement with HealthSouth.

Change in Control Benefits Plan

On November 4, 2005, the Special Committee of the board of directors approved, upon the recommendation of the Compensation Committee, the HealthSouth Corporation Change in Control Benefits Plan. After consultation with outside counsel, the Company determined the divestitures of the non-core divisions would not trigger benefits due under the Change in Control Benefits Plan. Mr. Grinney, Mr. Workman, Mr. Whittington, Mr. Tarr and other officers are participants in the Change in Control Benefits Plan. In addition, prior to leaving HealthSouth, Mr. Snow and Mr. Markus were participants. As a condition to receipt of any payment or benefits under the plan, participating employees must enter into a Non-Solicitation, Non-Disclosure, Non-Disparagement and Release Agreement with HealthSouth.

Under the Change in Control Benefits Plan, participants are divided into three different tiers as designated by the Compensation Committee. Our named executive officers who are still employed by the Company are Tier 1 participants; Tier 2 is comprised of certain senior vice presidents with higher responsibility levels; and Tier 3 includes senior vice presidents with lower responsibility levels. Upon the occurrence of a change in control as defined in the plan, each outstanding option to purchase common stock held by participants will become automatically vested and exercisable for a 90-day period. For Tier 1 participants, all options granted after November 4, 2005 will remain exercisable for three years following a change in control. Restricted stock that is not performance-based (time-lapse) and restricted stock units will be prorated and restrictions will automatically lapse upon the occurrence of a change in control. If the restricted stock is performance-based, the full performance cycle must occur before any potential grant is made. If, at the end of the performance cycle, the requisite performance goals are attained, a prorated portion of restricted stock is granted and restrictions immediately lapse.

If a participant’s employment is terminated within 24 months following a change in control or within 3 months of a potential change in control, either by the participant for good reason (as defined in the Change in Control Benefits Plan) or by HealthSouth without cause, then the participant shall receive a lump sum severance payment. For Tier 1 participants, the lump sum severance is 2.99 times base salary and maximum target bonus for the participant.

Retention Incentives

Due to the unique legal, regulatory, financial and operational challenges that faced the Company, the Compensation Committee and board of directors approved two special retention incentive plans: the Key Executive Incentive Program approved in 2005 and the Transitional Severance Plan approved in 2006. These plans are described in greater detail below.

Payments under the Key Executive Incentive Program and the Transitional Severance Plan were made in 2007, and in some cases will continue through 2009. Payments to Mr. Snow, Mr. Workman, Mr. Markus and Mr. Tarr under the Key Executive Incentive Program are included on page 46 in the Summary Compensation Table, column 7 and relevant footnotes. Payments to Mr. Snow under the Transitional Severance Plan are included on page 46 in the Summary Compensation Table, column 7 and relevant footnotes. Mr. Markus received severance payments and consultation fees under a separation agreement when he resigned from the Company in August 2007.

Key Executive Incentive Program.

In the third quarter of 2005, our chief executive officer developed and recommended the Key Executive Incentive Program to the Compensation Committee. This program responded to unusual employee retention needs we were experiencing at that particular point in our Company's history, and served as a means of ensuring management continuity during the Company's strategic repositioning, which was expected to continue through 2008. Accordingly, this program was structured to keep key members of our management team intact and to be an effective deterrent to officers leaving the Company during our transition phase. The Compensation Committee approved the Key Executive Incentive Program and recommended it to the board of directors, which approved the program on November 17, 2005. The program is a supplement to the Company's overall compensation program for executives and was intended to provide incentives for key senior executives in the form of equity awards that vest and cash bonuses that are payable, in each case, through January 2009. All named executive officers, other than Mr. Grinney and Mr. Whittington, are or were participants in the program. Mr. Grinney developed the program and recommended it to the Compensation Committee; Mr. Whittington was not employed by the Company at the time the plan was approved.

The program consists of a 50% equity component and a 50% cash component, except that the award to Mr. Workman consists of 60% in equity and 40% in cash. The equity component is comprised of approximately one-third stock options and two-thirds restricted stock.

The equity awards, which were made on November 17, 2005, were one-time special equity grants. These awards were separate from, and in addition to, the normal equity grants awarded in March and generally were equivalent to the executive's normal annual grant. The following equity awards were granted to NEOs under this program: Mr. Snow: 28,159 shares of restricted stock and 17,727 stock options; Mr. Workman: 23,923 shares of restricted stock and 15,061 stock options; Mr. Markus: 10,883 shares of restricted stock and 6,852 stock options; and Mr. Tarr: 11,164 shares of restricted stock and 7,029 stock options. The stock options have an exercise price equal to $19.35 per share, the fair market value on the date of grant. The stock options and restricted stock vest according to the following schedule: 25% in January 2007, 25% in January 2008, and the remaining 50% in January 2009. Mr. Snow and Mr. Markus are vested in the first 25% of their equity awards but, because they resigned from HealthSouth during 2007, have forfeited the remainder.

The cash component of the award is an incentive payment payable 25% in January 2007, 25% in January 2008, and the remaining 50% in January 2009. This cash bonus is equivalent to between approximately 80% and 110% of the key executive's base salary. In order for each key executive to receive each installment of the cash award, he or she must be employed in good standing on a full-time basis at the time of each payment, and the Company must have attained certain performance goals based on liquidity standards established by HealthSouth. Specifically, a particular bonus will be paid only if the Compensation Committee, in its discretion, projects that HealthSouth, after payment of the scheduled bonus installment to participants, will have sufficient cash reserves to be able to meet all of our debt service obligations, pay all normal operating expenses and meet emergency needs. In considering the future financial obligations of HealthSouth, the Compensation Committee will take into acco