

HEALTHSOUTH CORP  
Form DEF 14A  
April 05, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14-101)  
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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- 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):

- No fee required.
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  - (1 ) Amount previously paid:
  - (2 ) Form, Schedule or Registration Statement No.:
  - (3 ) Filing Party:
  - (4 ) Date Filed:

April 5, 2016

Dear Fellow Stockholder:

I am pleased to invite you to attend our 2016 Annual Meeting of Stockholders of HealthSouth Corporation, to be held on Thursday, May 5, 2016, at 11:00 a.m., central time, at our corporate headquarters at 3660 Grandview Parkway, Birmingham, Alabama.

We will review our 2015 performance, discuss our outlook for 2016, 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. If you plan to attend the annual meeting in person, you must provide proof of share ownership, such as an account statement, and a form of personal identification in order to be admitted to the meeting.

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

Sincerely,

Leo I. Higdon, Jr.

Chairman of the Board of Directors

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HEALTHSOUTH CORPORATION

Notice of Annual Meeting of Stockholders  
and

Internet Availability of Proxy Materials

TIME 11:00 a.m., central time, on Thursday, May 5, 2016

PLACE HEALTHSOUTH CORPORATION  
Corporate Headquarters  
3660 Grandview Parkway, Suite 200  
Birmingham, Alabama 35243  
Directions to the annual meeting are available by calling  
Investor Relations at 1-205-968-6400

•  
To elect ten directors to the board of directors to serve until our 2017 annual meeting of stockholders.  
Ø The board of directors recommends a vote FOR each nominee.

•  
To ratify the appointment by HealthSouth's Audit Committee of PricewaterhouseCoopers LLP as HealthSouth's independent registered public accounting firm.  
Ø The board of directors recommends a vote FOR ratification.

•  
ITEMS OF BUSINESS To approve, on an advisory basis, the compensation of the named executive officers as disclosed in HealthSouth's Definitive Proxy Statement for the 2016 annual meeting.  
Ø The board of directors recommends a vote FOR the approval of the compensation of our named executive officers.

•  
To approve the 2016 Omnibus Performance Incentive Plan.  
Ø The board of directors recommends a vote FOR the approval of the 2016 Omnibus Performance Incentive Plan.

•  
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 holder of record of HealthSouth common on March 8, 2016.

Your vote is important. Please vote in one of these ways:

•  
Via internet: Go to <http://www.proxyvote.com> and follow the instructions. You will need to enter the control number printed on your proxy card;

•  
PROXY VOTING By telephone: Call toll-free 1-800-690-6903 and follow the instructions. You will need to enter the control number printed on your proxy card;

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

•  
Submit a ballot in person at the annual meeting of stockholders.

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Important Notice Regarding the Availability of Proxy Materials  
For the Stockholders Meeting to be Held on May 5, 2016

HealthSouth's Proxy Statement on Schedule 14A, form of proxy card, and 2015 Annual Report (including the 2015 Annual Report on Form 10-K) are available at <http://www.proxyvote.com> after entering the control number printed on your proxy card.

Birmingham, Alabama  
April 5, 2016

Patrick Darby  
Secretary

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HEALTHSOUTH CORPORATION  
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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 5, 2016, beginning at 11:00 a.m., central time, at our principal executive offices located at 3660 Grandview 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 our board of directors of proxies to be voted at our 2016 annual meeting and at any adjournment or postponement. At our annual meeting, stockholders will act upon the following proposals:

- (1) to elect ten directors to the board of directors to serve until our 2017 annual meeting of stockholders;
- (2) to ratify the appointment by the Audit Committee of our board of directors of PricewaterhouseCoopers LLP as our independent registered public accounting firm;
- (3) to approve, on an advisory basis, the compensation of the named executive officers, as disclosed in this proxy statement for the 2016 annual meeting;
- (4) to approve the 2016 Omnibus Performance Incentive Plan; and
- (5) to transact such other business as may properly come before the 2016 annual meeting of stockholders and any adjournment or postponement.

These proxy solicitation materials are being sent to our stockholders on or about April 5, 2016.

What do I need to attend the meeting?

Attendance at the 2016 annual meeting of stockholders is limited to stockholders. Registration will begin at 10:30 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 our common stock as of the close of business on March 8, 2016, are entitled to receive notice of and to vote at the annual meeting of stockholders. As of February 16, 2016, there were 89,777,044 shares of our common stock issued and outstanding. 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 is our only class of outstanding voting securities. Each share of common stock is entitled to one vote on each matter properly brought before the annual meeting.

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, Computershare Trust Company, N.A., 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 will 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. Owners of shares held in street name that expect to attend and vote at the meeting should contact their broker, bank or nominee as soon as possible to obtain the necessary proxy. Even if you currently plan to attend the annual meeting, we recommend that you also submit your proxy as described below so 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 our 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 4, 2016. 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 website.

**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 you do not have the pre-addressed envelope available, please mail your completed proxy card to: Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

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 our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Form 10-K") are available at <http://www.proxyvote.com>. 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 our 2015 Form 10-K and the proxy materials are also available without charge from the "Investors" section of our website at <http://investor.healthsouth.com>. The 2015 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.

Rules adopted by the Securities and Exchange Commission 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 materials 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 in the first bullet 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 by a broker, 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, we are delivering one annual report that includes a proxy statement in a single 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 and material waste. **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 our corporate secretary at 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, or by calling 1-205-967-7116.

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., Household Department, 51 Mercedes Way, Edgewood, New York 11717, or by calling 1-866-540-7095, 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 our stockholders for any purpose germane to the meeting, during regular business hours at the meeting place, for ten days prior to the meeting.

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 all of our capital stock outstanding and entitled to vote on the record date will constitute a quorum. At the close of business on February 16, 2016, 89,777,044 shares of our common 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 unanimously 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” the approval of the compensation of our named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission; and

•“FOR” the approval of the 2016 Omnibus Performance 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?

The vote requirements for the proposals are as follows:

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 our independent registered public accounting firm will be approved if the votes cast for the proposal exceed those cast against the proposal. Broker non-votes will not be counted as votes cast for or against the proposal.

•The 2016 Omnibus Performance Incentive Plan will be approved if the votes cast for the proposal exceed those cast against the proposal plus abstentions. Broker non-votes will not be counted as votes cast for or against the proposal. Please note that “say-on-pay,” Proposal Three, is only advisory in nature and has no binding effect on the Company or our board of directors. Our board of directors will consider Proposal Three approved if the votes cast in favor of that proposal exceed the votes cast against it. Broker non-votes will not be counted as votes cast 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 ratification of the independent registered public accounting firm even if the record holder does not receive voting instructions from you. Absent instructions from you, the record holder may not vote on any “nondiscretionary” matter including a director election, an equity compensation plan, a matter relating to executive compensation, certain corporate governance changes, or any stockholder proposal. In that case, 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 will have the same effect as a vote against any stockholder proposal. Broker non-votes will be ignored. 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 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. We will publish the voting results in a Current Report on Form 8-K to be filed with the SEC no later than four business days following the end of the annual meeting. If preliminary results are reported initially, we will update the filing when final, certified results are available.

Who will count the votes?

A representative of Broadridge Financial Solutions, Inc., acting as the inspector of election, will tabulate and certify the votes.

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. We will request banks, brokers, nominees, custodians, and other fiduciaries who hold shares of our stock in street name, to forward these proxy solicitation materials to the beneficial owners of those shares and we will reimburse the reasonable out-of-pocket expenses they incur in doing so.

Who should I contact if I have questions?

If you hold our common stock through a brokerage account and you have any questions or need assistance in voting your shares, you should contact the broker or bank where you hold the account. If you are a registered holder of our common stock and you have any questions or need assistance in voting your shares, please call our Investor Relations department at 1-205-968-6400. As an additional resource, the SEC website has a variety of information about the proxy voting process at [www.sec.gov/spotlight/proxymatters.shtml](http://www.sec.gov/spotlight/proxymatters.shtml).

**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 and, based on the recommendation of the Nominating/Corporate Governance Committee, 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 2017 annual meeting of stockholders. Each director nominee named in Proposal One will be elected if the votes for that nominee exceed 50% of the number of votes cast with respect to that 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. Below we have provided information relating to each of the director nominees proposed for election by our board of directors, including a brief description of why he or she was nominated.

Name of Nominee	Age	Current Roles	Date Became Director
John W. Chidsey *	53	Member of Audit Committee (Chairman) and Finance Committee	10/2/2007
Donald L. Correll *	65	Member of Audit Committee and Finance Committee	6/29/2005
Yvonne M. Curl *	61	Member of Compensation Committee (Chairperson) and Compliance/Quality of Care Committee	11/18/2004
Charles M. Elson *	56	Member of Finance Committee (Chairman) and Nominating/Corporate Governance Committee	9/9/2004
Jay Grinney	65	President and Chief Executive Officer	5/10/2004
Joan E. Herman *	62	Member of Compensation Committee and Compliance/Quality of Care Committee (Chairperson)	1/25/2013
Leo I. Higdon, Jr. *	69	Chairman of the Board of Directors; Member of Compensation Committee and Nominating/Corporate Governance Committee	8/17/2004
Leslye G. Katz *	61	Member of Audit Committee and Finance Committee	1/25/2013
John E. Maupin, Jr. *	69	Member of Nominating/Corporate Governance Committee (Chairman) and Compliance/Quality of Care Committee	8/17/2004
L. Edward Shaw, Jr. *	71	Member of Compensation Committee and Nominating/Corporate Governance 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 that person was or is to be selected as a director or nominee, other than any arrangements or understandings with persons acting solely as directors or officers of HealthSouth.

## John W. Chidsey

Mr. Chidsey currently serves as an executive board member of HotSchedules LLC, formerly known as Red Book Connect, LLC. HotSchedules is a provider of comprehensive cloud-based technology with expertise in hiring, training, scheduling, back office and standardization for use by small businesses. From the time of the October 2010 sale of Burger King Holdings, Inc. to 3G Capital until April 18, 2011, Mr. Chidsey served as co-chairman of the board of directors of Burger King Holdings, Inc. Prior to the sale, he served as chief executive officer and a member of its board from April 2006, including as chairman of the board from July 2008. 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, chief administrative 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: the Vehicle Services Division that included Avis Rent A Car, Budget Rent A Car Systems, PHH and Wright Express and the Financial Services Division that included Jackson Hewitt and various membership and insurance



companies. 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. Mr. Chidsey currently serves on the board of directors of Norwegian Cruise Line Holdings Ltd. and on the governing board of the privately held company, Instawares Holdings, LLC. He also serves on the Board of Trustees for Davidson College in Davidson, North Carolina.

Mr. Chidsey has extensive experience in matters of finance, corporate strategy and senior leadership relevant to large public companies. Mr. Chidsey is a certified public accountant and a member of the Georgia Bar Association. He qualifies as an “audit committee financial expert” within the meaning of SEC regulations.

Donald L. Correll

Mr. Correll is chief executive officer and co-founder of KWP Capital, LLC, a firm that identifies, invests in, advises, and manages water and wastewater infrastructure assets and operations. Mr. Correll served as the president and chief executive officer and a director of American Water Works Company, Inc., the largest and most geographically diversified provider of water services in North America, from April 2006 to August 2010. 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 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. 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. He currently serves as a director, member of the audit committee, and chairman of the leadership development and compensation committee of New Jersey Resources Corporation. He also serves on the board of the the Northeast Power Coordinating Council, Inc.

Mr. Correll has extensive experience in matters of accounting, finance, corporate strategy and senior leadership relevant to large public companies. He is a certified public accountant and has experience with a major public accounting firm. Mr. Correll qualifies as an “audit committee financial expert” within the meaning of SEC regulations.

Yvonne M. Curl

Ms. Curl is a former vice president and chief marketing officer of Avaya, Inc., a global provider of next-generation business collaboration and communications solutions, which position 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. In the past five years, she has also served as director of Charming Shoppes, Inc., a specialty apparel retailer, and Welch Allyn, Inc. (private).

Ms. Curl has proven senior executive experience with broad operational experience in sales, marketing, and general management through her previous roles with large public companies as described above. Having served on several compensation committees on the board of directors of public companies, she has experience in the development and oversight of compensation programs and policies.

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, Director Evaluation, Risk Governance, Role of Lead Director, Strategy Development, and Board Diversity. He was a member of the National Association of Corporate Directors’ Best Practices Council on Coping with Fraud and Other Illegal Activity. He served on that organization’s Advisory Council. He currently serves as a director of Bob Evans Farms, Inc. In addition, Mr. Elson serves as vice chairman of the American Bar Association’s Committee on Corporate Governance and as a member of a standing advisory committee for the Public Company Accounting Oversight Board. Mr. Elson has been Of Counsel to the law firm of Holland & Knight LLP from 1995 to the present.

Mr. Elson has extensive knowledge of and experience in matters of corporate governance through his leadership roles with professional organizations dedicated to the topic as described above. Through his other professional roles, Mr. Elson is in a unique position to monitor and counsel on developments in corporate governance.

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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. He currently serves as a director of Energen Corporation, a diversified energy holding company engaged in the development, acquisition, exploration and production of oil, natural gas and natural gas liquids and is a member of its audit and compensation committees. He also serves as a director of Coca-Cola Bottling Company United, Inc.

Mr. Grinney, as president and chief executive officer of the Company, directs the strategic, financial and operational management of the Company and, in this capacity, provides unique insights into the detailed operations of HealthSouth. He also has the benefit of more than 25 years of experience in the operation and management of large, sophisticated, multi-site, publicly traded healthcare companies.

Joan E. Herman

Ms. Herman has served as the president and chief executive officer of Herman & Associates, LLC, a healthcare and management consulting firm, since 2008. Herman & Associates provides services to healthcare providers, pharmacy benefit managers, managed care organizations, and private equity firms. From 1998 to 2008, she served in a number of senior management positions, including president and chief executive officer for two corporate divisions, at Anthem, Inc. (f/k/a WellPoint, Inc.), a leading managed healthcare company that offers network-based managed care plans. Prior to joining Anthem, she served in a number of senior positions at Phoenix Life Insurance Company for 16 years, lastly as senior vice president of strategic development. Ms. Herman currently serves on the board of directors for Convergys Corporation, a provider of customer management and business support system solutions for which she serves on the audit and nominating and governance committees. In the past five years, she has served as a director of MRV Communications, Inc. and Qualicorp SA, a publicly traded company in Brazil. In addition, she currently serves on the boards of directors of DentalPlans.com and AARP Services Inc., both privately held companies.

Ms. Herman has extensive experience leading large complex businesses, including in the healthcare and insurance industries. With Anthem, she gained experience dealing with government reimbursement issues as well as state and federal healthcare and insurance regulators. She has further demonstrated her leadership and character through senior involvement in various community and charity organizations, such as the American Red Cross – Los Angeles region and the Venice Family Clinic Foundation, where she serves on the board of directors.

Leo I. Higdon, Jr.

Mr. Higdon was unanimously elected to serve as chairman of our board of directors on May 1, 2014. He served as president of Connecticut College from July 1, 2006 to December 31, 2013. He served as the president of the College of Charleston from October 2001 to June 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 the lead independent director of Eaton Vance Corp., a provider of investment management and advisory services, and as a director of Citizens Financial Group, Inc.

As a result of his 20 years of experience in the financial services industry combined with his strategic management skills gained through various senior executive positions, including in academia, and service on numerous boards of directors, Mr. Higdon has extensive experience with strategic and financial planning and the operations of large public companies.

Leslye G. Katz

From January 2007 to December 2010, Ms. Katz served as senior vice president and chief financial officer of IMS Health, Inc., a provider of information, services, and technology for clients in the pharmaceutical and healthcare industries. Prior to that, she served as vice president and controller for five years. From July 1998 to July 2001, Ms. Katz served as senior vice president and chief financial officer of American Lawyer Media, Inc., a privately held

legal media and publishing company. Prior to joining American Lawyer Media, Ms. Katz held a number of financial management

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positions with The Dun & Bradstreet Corporation, followed by two years as vice president and treasurer of Cognizant Corporation, a spin-off from D&B. Ms. Katz currently serves as a director and member of the audit and compensation committees of ICF International, Inc., a provider of management, technology, and policy consulting and implementation services to government and commercial clients, and as chair of the board of directors of My Sisters' Place, a not-for-profit provider of shelter, advocacy, and support services to victims of domestic violence. Ms. Katz has extensive experience in financial management at companies serving the healthcare and pharmaceutical industries, as well as expertise in mergers and acquisitions, treasury, financial planning and analysis, SEC reporting, investor relations, real estate, and procurement. She has further demonstrated her leadership and character in her service with a community charity. She qualifies as an "audit committee financial expert" within the meaning of SEC regulations.

John E. Maupin, Jr.

In July 2014, Dr. Maupin retired as president and chief executive officer of the Morehouse School of Medicine located in Atlanta, Georgia, a position he held from 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 currently serves as a director of LifePoint Hospitals, Inc., VALIC Companies I & II, a group retirement investment fund complex, and Regions Financial Corp. Dr. Maupin also serves on the boards of the America's Promise Alliance and the Development Authority of Fulton County.

Dr. Maupin has extensive management and administrative experience with healthcare organizations as described above. He has diverse executive leadership experience in public health, ambulatory care, government relations, and academic medicine. He also has a distinguished record as a health policy expert and advisor, having served on numerous national advisory boards and panels. Additionally, he has demonstrated his leadership and character through involvement, including board roles, in community, healthcare, and scientific advisory organizations as well as through his service as an officer in the U.S. Army Reserve for more than 28 years.

L. Edward Shaw, Jr.

From March 2006 to July 2010, Mr. Shaw served on a part-time basis as a senior managing director of Richard C. Breeden & Co., and affiliated companies engaged in investment management, strategic consulting, and governance matters. He has served as general counsel of both Aetna, Inc. from 1999 to 2003 and The Chase Manhattan Bank from 1983 to 1996, where, in addition to his legal role, his responsibilities included a wide range of strategic planning, risk management, compliance and public policy issues. From 1996 to 1999, he served as chief corporate officer of the Americas for National Westminster Bank PLC. In 2004, Mr. Shaw was appointed independent counsel to the board of directors of the New York Stock Exchange dealing with regulatory matters. Mr. Shaw also currently serves as a director of MSA Safety Inc. and as a director of Covenant House, the nation's largest privately funded provider of crisis care to children. In the past five years, he has served as a director of H&R Block, Inc.

Mr. Shaw has a wide ranging legal and business background, including senior leadership roles, in the context of large public companies as described above with particular experience in corporate governance, risk management and compliance matters. He also has significant experience in the healthcare industry as a result of his position with Aetna.

Board Recommendation

The board of directors unanimously 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 our independent registered public accounting firm for the 2016 audit period, and with the endorsement of the board of directors, recommends to our stockholders that they ratify that appointment. The Audit Committee will reconsider the appointment of PricewaterhouseCoopers LLP for the next audit period if such appointment is not ratified. 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 our independent registered public accounting firm, both in fact and appearance. Consistent with its charter, the Audit 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 Audit Committee has expressed its satisfaction with PricewaterhouseCoopers LLP in all of these respects. The Audit Committee's review included inquiry concerning any litigation involving PricewaterhouseCoopers LLP and any proceedings by the SEC against the firm. In this respect, the Audit 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, as amended. The Audit Committee has concluded that provision of the non-audit services described in that section is not compatible with maintaining the independence of PricewaterhouseCoopers LLP.

The Audit Committee has established a policy regarding pre-approval of 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 the services to be rendered and fees to be charged by our independent registered public accounting firm. Typically, the Audit Committee approves services up to a specific amount of fees. The Audit Committee must then approve, in advance, any services or fees exceeding those pre-approved levels, except for de minimis services with billings not greater than the lesser of \$50,000 or 5% of previously approved amounts, which are subject to subsequent approval by the Audit Committee and other requirements. The Audit Committee may delegate general pre-approval authority to a subcommittee of which the chairman of the Audit Committee is a member, provided that any delegated approval is limited to services with fees of no more than 5% of previously approved amounts. 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 pre-approved services. All requests for services that have not been pre-approved 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, 2015 and 2014, the Audit Committee approved the audit services to be performed by PricewaterhouseCoopers LLP, as well as certain categories and types of audit-related and permitted non-audit services. In 2015 and 2014, all audit, audit-related, and other fees were approved in accordance with SEC pre-approval rules. The following table shows the aggregate fees paid or accrued for professional services rendered by PricewaterhouseCoopers LLP for the years ended December 31, 2015 and 2014, with respect to various services provided to us and our subsidiaries.

	For the Year Ended December 31,	
	2015	2014
	(In Millions)	
Audit fees <sup>(1)</sup>	\$4.0	\$2.8
Audit-related fees <sup>(2)</sup>	0.2	0.1
Total audit and audit-related fees	4.2	2.9
Tax fees <sup>(3)</sup>	0.1	0.1
All other fees <sup>(4)</sup>	0.1	0.5
Total fees	\$4.4	\$3.5

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 each year presented; fees for professional services rendered for the review of financial statements included in our Form 10-Qs, and fees for professional services 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 hospitals.

Audit-Related Fees – Represents aggregate fees paid or accrued for assurance and related services that are reasonably related to the performance of audit services and traditionally are performed by our independent auditor, such as work in connection with registered offerings of securities.

Tax Fees – Represents fees for all professional services, including tax compliance, advice and planning, provided by our independent auditor’s tax professionals but not including any services related to the audit of our financial statements.

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, for 2015, these fees represent amounts paid or due to our independent auditor for due diligence work associated with acquisitions and miscellaneous services and products.

## Board Recommendation

The board of directors and the Audit Committee unanimously recommend that you vote “FOR” ratifying the appointment of PricewaterhouseCoopers LLP as HealthSouth’s independent registered public accounting firm for the 2016 audit period.

### Proposal 3 – Advisory Vote on Executive Compensation

We seek your advisory vote on our executive compensation programs. The Company asks that you support the compensation of our named executive officers as disclosed under the heading “Executive Compensation,” including the “Executive Summary” section, beginning on page 33 and the accompanying tables and related narrative disclosure. This proposal, commonly referred to as a “say-on-pay” proposal, gives stockholders the opportunity to express their views on the named executive officers’ compensation as required under Section 14A of the Securities Exchange Act. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the named executive officers and the philosophy, policies and practices described in this proxy statement.

As described under the heading “Compensation Discussion and Analysis” on page 33, the Company provides annual and long-term compensation programs as well as the other benefit plans, to attract, motivate, and retain the named executive officers, each of whom is critical to the Company’s success, and to create a remuneration and incentive program that aligns the interests of the named executive officers with those of stockholders. The board of directors believes the program strikes the appropriate balance between utilizing responsible, measured pay practices and effectively incentivizing the named executive officers to dedicate themselves fully to value creation for our stockholders. At the 2015 annual meeting, 98.9% of stockholders voting on the say-on-pay proposal approved our executive compensation on an advisory basis.

You are encouraged to read the information detailed under the heading “Executive Compensation” beginning on page 33 for additional details about the Company’s executive compensation programs.

The board of directors strongly endorses the Company’s executive compensation program and recommends that the stockholders vote in favor of the following resolution:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the HealthSouth Corporation Definitive Proxy Statement for the 2016 annual meeting of stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2015 Summary Compensation Table and the other related tables and disclosure.”

This say-on-pay vote is advisory, and therefore not binding on the Company, the compensation committee or the board of directors. The board of directors and its compensation committee value the opinions of our stockholders and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider stockholders’ concerns and the compensation committee will evaluate whether any actions are necessary to address those concerns. The board of directors has elected to hold the say-on-pay advisory vote annually until further notice. The next advisory vote is expected to be in connection with the 2017 annual meeting of stockholders.

#### Board Recommendation

The board of directors unanimously recommends a vote “FOR” the approval of the compensation of our named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission.

#### Proposal 4 - Approval of 2016 Omnibus Performance Incentive Plan

In order to provide a sufficient pool of equity for us to operate our compensation program, our board of directors has adopted, subject to stockholder approval at the Annual Meeting, the HealthSouth Corporation 2016 Omnibus Performance Incentive Plan, or the “2016 Plan,” to provide for issuance of up to 14 million shares of our common stock related to awards granted after the 2016 Plan is approved by stockholders. The 2016 Plan will replace the existing HealthSouth Corporation Amended and Restated 2008 Equity Incentive Plan, or the “2008 Plan,” previously approved by our stockholders on May 5, 2011, as our primary incentive compensation plan. If the 2016 Plan is approved and effective, we will not grant or issue new equity awards under the 2008 Plan or any other currently effective equity plan after May 9, 2016.

If approved, the 2016 Plan would be effective May 9, 2016. The 2016 Plan will terminate on the tenth anniversary of the Effective Date, unless terminated earlier by the board of directors, but awards granted prior to such date may extend beyond that date. If the 2016 Plan is not approved by our stockholders, no awards will be made under it, and we will likely not have enough shares remaining under the 2008 Plan to grant an appropriate amount of equity awards going forward.

The stockholder approved incentive compensation plan serves a critical role in our compensation program that emphasizes performance-based, “at risk” compensation. Our compensation philosophy calls for a competitive program of compensation for the Company’s senior management that aligns management’s interests with those of long-term stockholders. Equity awards are the simplest, most direct way to align management and employee interests with those of stockholders. Because the shares available for equity awards are limited, in order to balance compensation principles with stockholder interests in limiting dilution, we generally limit equity awards to management positions (as opposed to broad-based awards). As a general rule, the more senior or highly compensated the position, the larger the portion of the total incentive opportunity that is provided in equity. Both the equity and cash incentive awards provided for in the 2016 Plan allow our board of directors and the Compensation Committee to structure our compensation program to strengthen the commitment of employees to the company, motivate them to faithfully and diligently perform their responsibilities, and attract and retain competent and dedicated individuals whose efforts will result in the long-term growth and profitability of the company. See “Executive Compensation Philosophy” beginning on page 37 for additional discussion.

While the use of equity incentives is an important part of our compensation program, we are mindful of our responsibility to our stockholders to exercise judgment in granting equity awards. The Compensation Committee with the assistance of its independent consultant annually reviews the Company’s overhang, or the total of outstanding equity awards and shares available for future equity awards under the compensation plans as a percentage of fully diluted shares outstanding, the fair value transfer, or the accounting value of shares granted as a percentage of market capitalization, and the run rate, or the shares granted as a percentage of the weighted average shares outstanding, relative to a peer group of healthcare companies. In the 2015 review of our overhang, fair value transfer, and run rate prepared by the Compensation Committee’s independent consultant, we were below the median of the peer group for each metric.

Although our future run rate will depend upon and be influenced by a number of factors, such as the number of plan participants, the price per share of our common stock and the methodology used to establish the equity award mix, the 14 million shares of common stock reserved for issuance in the 2016 Plan would enable us to continue to utilize equity awards as an important component of our overall compensation program and help meet our objectives to attract, retain and motivate talented employees. In determining the share reserve, we considered an analysis of our overhang percentage and historic average run rate relative to a peer group of healthcare companies. The results of the analysis performed by the Compensation Committee’s independent consultant indicated our overhang at December 31, 2015 was 7.7% and annual average run rate for the three-year period ending December 31, 2015 was 1.2%, each of which was less than the median number for the peer group.



As of February 29, 2016, our pro forma overhang (including the 14 million shares under the 2016 Plan) would be 16.6% based on 90,287,264 shares of our common stock issued and outstanding and the following awards outstanding under the 2008 Plan and other incentive plans or programs:

Type of Award	Number of Awards	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (years)
Non-qualified stock options <sup>(1)</sup>	2,008,317	21.83	4.75
SARs <sup>(1)</sup>	245,952	137.95	6.08
Restricted stock awards <sup>(2)</sup>	1,080,815	n/a	n/a

(1) No outstanding Options and SARs have dividend or equivalent rights.

(2) This does not include 2015 and 2016 performance-based stock awards that have not yet completed their performance period. All restricted stock awards have dividend or equivalent rights.

Highlights and a summary of the 2016 Plan are set forth below and are qualified in their entirety by reference to the full text of the 2016 Plan, a copy of which is attached as Appendix B to this proxy statement.

#### Highlights of the 2016 Plan

The 2016 Plan includes a number of provisions that our board of directors believes are consistent with the interest of stockholders and sound corporate governance, including:

**Supports pay and performance linkage and encourages stock ownership:** Our cash and equity incentive programs are performance-based in large part, and the Compensation Committee’s intent is to continue this design for annual awards. The intent is to provide an incentive for our senior management to enhance stockholder value. In addition, equity-based awards further align the interest of participants with our stockholders and provide a vehicle to assist executives in achieving our stock ownership guidelines. See “Equity Ownership Guidelines for Management” on page 48 for additional discussion.

**No repricings:** Except in connection with a corporate transaction involving the Company, the 2016 Plan prohibits the repricing of stock options or stock appreciation rights, or “SARs,” without the approval of stockholders. This prohibition applies to lowering the exercise price of stock options or SARs, canceling and granting replacement stock options or SARs with a lower exercise price and the repurchase of underwater stock options or SARs for cash.

**No discount stock option or SARs:** The exercise price of all stock options or SARs must be equal to or greater than the fair market value of our stock on the date of grant.

**Minimum vesting periods:** Generally, time-vested restricted stock or restricted stock units granted to employees must vest over no less than three years and performance-based awards must have a minimum one-year performance period.

**No liberal share counting for options and SARs:** The 2016 Plan prohibits the reuse of shares underlying stock options tendered as full or partial payment upon exercise of a stock option or the reuse of shares not issued in settlement of a SAR. In addition, shares withheld to satisfy tax withholding upon the lapse of restrictions on exercise of stock options or SARs may not be reused. Unused shares authorized under the 2008 Plan and not associated with previously issued awards are not being carried forward and will not be available for awards under the 2016 Plan.

**Awards are subject to clawback:** Awards granted are subject to our compensation recoupment policy. See “Compensation Recoupment Policy” on page 48 for additional discussion.

**No award transferability for value:** The 2016 Plan prohibits the transfer of awards to a third party for cash or other value.

**Non-employee director compensation limits:** The 2016 Plan provides for annual limits to cash and equity grants to non-employee directors.

### Summary of the 2016 Plan

**Purpose.** The purpose of the 2016 Plan is to promote the Company's success and enhance the value of the Company 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 2016 Plan permits the grant of equity and cash incentive awards to employees, officers, and directors of the Company and its affiliates as selected by the Compensation Committee. As of February 18, 2016, approximately 290 people participated in the 2008 Plan.

**Aggregate Shares.** Subject to adjustment as provided in the 2016 Plan, the aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted under the 2016 Plan is 14,700,000. Each share of stock subject to an award, other than a stock option or SAR, shall reduce the number of shares of stock available for awards by 2.65 shares. The number of shares of stock available for awards shall be reduced by one share for each stock option or SAR award. Except in the case of shares not delivered when settling stock options and SARs, the 2016 Equity Plan allows the Company to add back to the number of shares available for issuance the same number of shares that were previously reserved for issuance in connection with a related award (including awards under the 2008 Plan outstanding as of December 31, 2015 or issued after that date) but were forfeited, canceled, or otherwise never issued to the recipient. The closing price of our common stock on February 29, 2016 was \$35.23. If the 2016 Plan is approved and effective, we will not grant or issue new equity awards under the 2008 Plan or any other currently effective equity plan after May 9, 2016.

**Minimum Vesting Requirements.** Except with respect to awards (other than an option or a SAR) accounting for not greater than 5% of the aggregate number of shares of common stock reserved and available for awards or as set forth below under "Acceleration upon Certain Events," any award of stock granted under the 2016 Plan 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, or (2) be granted solely in exchange for foregone cash compensation.

**Oversight and Administration.** The Compensation Committee will administer the 2016 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; delegate authority to management with respect to non-executive awards (in which case any authorized actions taken by the delegate(s) shall be treated as actions of the Compensation Committee); and make all other decisions and determinations that may be required under the 2016 Plan. The board of directors may at any time choose to administer the 2016 Plan (for example, awards to the chief executive officer), in which case the board will have the same authority otherwise given to the Compensation Committee under the 2016 Plan. See "Compensation Discussion and Analysis" beginning on page 33 for more information on how the current incentive compensation programs are administered.

**Permissible Awards.** The 2016 Plan authorizes the granting of awards in any of the following forms:

**Stock Options.** The Compensation Committee is authorized to grant incentive stock options or non-qualified stock options for our common stock under the 2016 Plan. The terms of an incentive stock option must meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended. No more than one million incentive stock options may be issued under the 2016 Plan. The exercise price of an option may not be less than the fair market value (as defined in the 2016 Plan) of the underlying stock on the date of grant, and no option may have a term of more than 10 years. Participants may elect to exercise stock options by means of a cashless exercise or a net settlement.

**Stock Appreciation Rights.** The Compensation Committee may also grant stock appreciation rights or 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). Customarily, our restricted stock has been granted voting rights prior to vesting.

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**Restricted Stock Units.** The Compensation Committee may make awards of restricted stock units, 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, shares of common stock, restricted stock, or restricted stock units. 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.

**Cash Awards.** The Compensation Committee is authorized to confer rights to participants to receive cash subject to the achievement of one or more specified performance goals or such other terms and conditions as may be selected by the Compensation Committee.

**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 declared and paid with respect to all or a portion of the shares of common stock subject to an award other than a stock option or a SAR. Dividend equivalents associated with a performance-based award will only be paid to the extent the underlying award is earned and vested.

**Other Stock-Based Awards.** The Compensation Committee may, subject to limitations under applicable law and the provisions of the 2016 Plan, 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 2016 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 2016 Plan are intended to qualify as performance-based awards that are fully deductible by HealthSouth without regard to the \$1 million deduction limit imposed by Section 162(m) of the Code. The Compensation Committee may designate any other award under the 2016 Plan (such as, for example, a cash incentive bonus or restricted stock award) as a qualified performance-based award that is intended to be fully deductible under Section 162(m). If an award is so designated, the Compensation Committee must establish 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, maintenance of a specific level 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 other companies. Performance criteria for qualified performance-based awards under Section 162(m) will be limited to specified levels or changes in the following metrics which may or may not be calculated in accordance with generally accepted accounting principles in the United States:

- earnings (including but not limited to per share measures);
- profit (including but not limited to net profit, gross profit, operating profit, economic profit or other profit measures);
- net or operating income;
- revenue (net or gross);
- stock price or performance;
- stockholder return;
- return measures (including but not limited to return on assets, capital, equity or revenue);
- EBITDA (earnings before interest, taxes, depreciation and amortization) or EBIT measures;
- operating, EBITDA or profit margins;

market share;

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- expenses (including but not limited to expense management, expense efficiency ratios or other expense measures);
- business expansions or consolidation (including but not limited to new locations, acquisitions, divestitures and closures);
- internal rate of return;
- planning accuracy;
- year-over-year patient volume growth;
- year-over-year changes in expense line items;
- cash flow measures (including but not limited to free cash flow);
- prevention of failures of internal controls or compliance; and
- quality of care metrics (including but not limited to PEM Score, functional improvement measures, patient satisfaction and other metrics tracked by Medicare or Medicaid).

For a qualified performance-based award, the Compensation Committee must establish such goals at the beginning of the period for which such performance goal relates (or such later date as may be permitted under applicable tax regulations) and, except as set forth below under “Acceleration upon Certain Events,” the Compensation Committee may not increase any award or waive the achievement of any specified goal. In the Compensation Committee’s discretion, the performance measured for a specific goal may be adjusted for unusual, nonrecurring, unexpected, or unbudgeted events or effects if those types of equitable adjustments meet criteria established in advance by the Compensation Committee. Any payment or settlement of a qualified performance-based award will be conditioned upon the Compensation Committee receiving written certification that the performance goals and any other material conditions were satisfied, and reflecting such certification in the Compensation Committee’s minutes. However, nothing in the 2016 Plan prevents the Compensation Committee from issuing awards that are not fully deductible.

**Award Limits.** No individual (including any individual who is likely to be a “covered employee” for purposes of Section 162(m) of the Code) may be granted options or SARs in excess of 1,000,000 associated shares during any two consecutive plan years. For qualified performance-based awards under Section 162(m), no individual may be granted more than 1,000,000 of any of the following during any two consecutive plan years: performance shares, restricted stock shares, restricted stock units or shares associated with other stock-based awards. For qualified performance-based awards under Section 162(m), no individual may be granted more than \$10,000,000 of either performance units or other cash awards during any two consecutive plan years. These limitations apply separately to each type of award. For example, an individual may be granted 1,000,000 options and 1,000,000 SARs during the same two-year period.

**Non-Employee Director Compensation Limits.** The maximum value of the equity awards granted to any non-employee director in any plan year shall not exceed \$300,000. The maximum aggregate amount of the cash awards, including retainer and other fees, granted to any non-employee director in any plan year also shall not exceed \$300,000. Accordingly, the aggregate value of all awards granted to a non-employee director in any plan year shall not exceed \$600,000; provided, however, these limits will not apply to any compensation resulting from non-preferential dividends or dividend equivalents associated with outstanding equity awards.

**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 by the company without “cause” or by the participant for “good reason” (as such terms are defined in the 2016 Plan) within 24 months after a change in control of HealthSouth (as defined in the 2016 Plan) or if the surviving company following a change in control does not assume existing awards or substitute equivalent awards, all outstanding options and SARs will become fully vested and exercisable and all restrictions (other than performance goals) on other

outstanding awards will lapse. For a change in control event, the Compensation Committee also may (but need not) waive or modify any performance goals tied to awards. In the event of death or disability, a participant's awards (other than options and SARs) vest immediately and performance goals may, in the Compensation Committee's discretion, be

waived or modified except in the case of qualified performance-based awards. In the event of retirement, a participant's awards generally vest on a pro rata basis for the completed portion of the original vesting/performance period and performance goals may, in the Compensation Committee's discretion, be waived or modified except in the case of qualified performance-based award. Beginning in 2013, performance-based awards granted to Mr. Grinney provide for vesting of the full award at retirement subject to actual performance status over the original two-year performance period and releasing of the resulting shares earned after one more year. The Compensation Committee may accelerate the vesting provisions and/or waive the forfeiture provisions applicable to any awards (other than qualified performance-based awards) for any other reason; provided, however, its discretion shall be limited to the death, disability or retirement of a participant, although the Compensation Committee may exercise discretion for any reason with respect to awards of up to 5% of the shares available for awards.

**Adjustments.** In the event of an extraordinary cash dividend, 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 2016 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 2016 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.

**Amendment, Modification and Termination.** The Compensation Committee shall have the power to amend, suspend or terminate the 2016 Plan at any time, provided that any termination shall not affect outstanding awards under the 2016 Plan at the time of termination. However, an amendment shall be contingent on approval of HealthSouth's stockholders to the extent required by law or by the rules of any applicable stock exchange. The Compensation Committee may also amend any outstanding award in whole or in part from time to time. Any such amendment that the Compensation Committee determines, in its sole discretion, to be necessary or appropriate to conform the award to, or otherwise satisfy, any legal requirement, may be made retroactively or prospectively and without the approval or consent of the participant, make adjustments in the terms and conditions of an award in recognition of an unusual or non-recurring event affecting the company or the financial statements of the company in order to prevent the dilution or enlargement of the benefits intended to be made available pursuant to the award. All other amendments or adjustments to awards may be made by the Compensation Committee with the consent of the affected participants.

**Certain Federal Tax Effects.** This summary is intended to provide a general description of the current federal income tax treatment of awards provided under the 2016 Plan. Tax laws are subject to change.

**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 2016 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 federal income tax 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 of grant and 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 a corresponding federal income tax deduction at that time.

**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 Section 162(m). If the participant files an election under Code Section 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 Section 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 Section 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 Section 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. When the participant receives or has the right to receive payment of cash or shares under the performance award, the cash amount or 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 Section 162(m).

**Tax Withholding.** Participants are responsible for making arrangements to ensure all taxes required to be withheld are withheld in connection with any award. The Company has the right to retain from the payment under, or settlement of, an award the number of shares of stock or a portion of the value of the award equal in value to the amount of any required withholdings. At the Compensation Committee's discretion, the participant may elect to satisfy the withholding requirement in the same manner.

## 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, HealthSouth's performance, its 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 2016 Plan.

The Compensation Committee approved certain equity grants as part of the 2015 long-term incentive and director compensation programs. Although the annual grants described in the following table were made under the 2008 Plan, the Compensation Committee would likely have granted similar values and types of awards under the proposed 2016 Plan had that plan been in effect at the time of the grants.

2015 Participants - Name and Position	Dollar Value (\$)	Number of Units <sup>1</sup>	
Jay Grinney, President and Chief Executive Officer	5,499,993	170,540	(2)
Douglas E. Coltharp, EVP and Chief Financial Officer	787,487	24,418	(3)
John P. Whittington, EVP, General Counsel and Secretary	790,568	24,513	(4)
Mark J. Tarr, EVP and Chief Operating Officer	1,250,045	38,760	(5)
Edmund M. Fay, Treasurer and Senior Vice President	258,066	5,832	(6)
Dexanne B. Clohan, M.D., Chief Medical Officer	—	—	(7)
Andrew L. Price, Chief Accounting Officer	257,491	5,819	(8)
Cheryl B. Levy, Chief Human Resources Officer	345,017	7,797	(9)
April Anthony, Chief Executive Officer and President, Encompass Executive Group	—	—	
	9,188,668	277,679	(10)
Non-Executive Director Group	1,627,533	38,389	(11)
Non-Executive Officer Employee Group	15,130,491	341,932	(12)

Except as noted below for the Non-Executive Director Group, number of units granted was based on an assumed <sup>1</sup> option value of \$15.47 (Black-Scholes method) and on stock value of \$44.25 (20-day average closing price preceding the February 2015 board meeting). The number of performance share units included assume target performance for the two-year objectives described beginning on page 45.

<sup>2</sup> Represents 24,859 shares of restricted stock, 71,105 options and 74,576 performance share units.

<sup>3</sup> Represents 3,559 shares of restricted stock, 10,181 options and 10,678 performance share units.

<sup>4</sup> Represents 3,573 shares of restricted stock, 10,220 options and 10,720 performance share units.

<sup>5</sup> Represents 5,650 shares of restricted stock, 16,160 options and 16,950 performance share units.

<sup>6</sup> Represents 2,332 shares of restricted stock and 3,500 performance share units.

<sup>7</sup> Did not receive equity because of pending retirement.

<sup>8</sup> Represents 2,328 shares of restricted stock and 3,491 performance share units.

<sup>9</sup> Represents 3,119 shares of restricted stock and 4,678 performance share units.

<sup>10</sup> Represents 45,420 shares of restricted stock, 107,666 options and 124,593 performance share units.

<sup>11</sup> Represents restricted stock units granted based on the close price of our common stock on the grant dates.

<sup>12</sup> Represents 116,879 shares of restricted stock and 225,053 performance share units.

## Board Recommendation

The board of directors unanimously recommends a vote "FOR" the approval of the 2016 Omnibus Performance 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 Bylaws;
- 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.

#### 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, and 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;
- full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by us;
- compliance with all applicable rules and regulations that apply to us and our officers and directors;
- prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- 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 as noted below promptly following the date of such amendment or waiver. Upon written request to our corporate secretary, we will also provide a copy of the code of ethics free of charge.

#### Corporate Website

We maintain a “Corporate Governance” section on our website where you can find copies of our principal governance documents, including our code of ethics. Our “Corporate Governance” section is located at <http://investor.healthsouth.com> and includes the following documents, among others:

- Charter of the Company
- Bylaws of the Company
- 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

#### Board Policy on Majority Voting for Directors

A director nominee will be elected if the votes “for” that person exceed 50% of the votes cast, including “withhold authority” votes but excluding “abstention” votes and broker non-votes, in the election with respect to that person. In addition, we have adopted a policy whereby any incumbent director nominee who receives a greater number of “withhold authority” votes than votes “for” his or her election will tender his or her resignation for consideration by the Nominating/Corporate Governance Committee unless it is a contested election in which case the incumbent director nominee must receive the votes required by our Bylaws. The Nominating/Corporate Governance Committee will recommend to the board of directors whether to accept or reject the offer of resignation.

#### Role of the Board in Oversight of the Company’s Risks

We maintain a comprehensive enterprise risk management program designed to identify potential events and conditions that may affect the Company and to manage risks to avoid materially adverse effects on the Company. Our management, including an executive risk committee, is responsible for the design and implementation of the enterprise risk management program. The Audit Committee of the board of directors, pursuant to its charter, is responsible for reviewing and evaluating our policies and procedures relating to risk assessment and management. The full board of directors monitors the enterprise risk management program by way of regular reports from our senior executives on management’s risk assessments and risk status as well as our risk response and mitigation activities. The full board also monitors the Company’s strategic risks by way of regular reports. Individual committees monitor, by way of regular reports, the risks that relate to the responsibilities of that committee.

The Compensation Committee reviews and considers our compensation policies and programs in light of the board of directors’ risk assessment and management responsibilities on an annual basis. In 2014, our human resources department in consultation with Mercer (US) Inc. prepared and presented to the Compensation Committee a risk assessment report that addressed the incentive compensation structure, plans, and processes at all levels of the Company. The assessment included, among other things, a review of pay mix (fixed v. variable, cash v. equity and short v. long-term), performance metrics, target setting, performance measurement practices, pay determination, mitigation practices such as the Compensation Recoupment Policy, and overall governance and administration of pay programs. After reviewing this report and making inquiries of management, the Compensation Committee determined we have no compensation policies and programs that give rise to risks reasonably likely to have a material adverse effect on us.

#### Annual Evaluation of the Performance of the Board

On an annual basis, members of the board complete an evaluation of the performance of the board and its members as well as each committee on which the respective members serve. The board may, and does on occasion, obtain the advice and assistance of outside advisors in performing the evaluation. Results are reviewed by the Nominating/Corporate Governance Committee which then shares those results and any follow up recommendations with all members of the board.

#### Communications to Directors

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

HEALTHSOUTH CORPORATION  
BOARD OF DIRECTORS  
3660 GRANDVIEW PARKWAY, SUITE 200  
BIRMINGHAM, ALABAMA 35243  
ATTENTION: [Addressee\*]

\* Including the name of the specific addressee(s) will allow us 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.

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## Board Structure and Director Nominations

### Board Structure and Meetings

Our business, property, and affairs are managed under the direction of our board of directors. Our Corporate Governance Guidelines provide for a non-executive chairman of the board to set the agenda for, and preside over, board meetings, coordinate the work of the committees of our board of directors and perform other duties delegated to the chairman by our board of directors. The non-executive chairman also presides over independent sessions generally held at each board meeting. The board of directors adopted this structure to promote decision-making and governance independent of that of our management and to better perform the board's monitoring and evaluation functions. On May 1, 2014, the board unanimously elected Mr. Higdon as chairman. 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 six times during 2015. Each member of the board of directors attended 75% or more 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 our policy that directors are expected to attend the annual meeting of stockholders. The members of the board of directors generally hold a meeting the same day and location as the annual meeting of stockholders. All members of our board of directors attended the annual meeting in 2015.

### Criteria for Board Members

In evaluating the suitability of individual candidates and nominees, the Nominating/Corporate Governance Committee and the board of directors consider relevant factors, including, but not limited to: a general understanding of marketing, finance, corporate strategy and other elements relevant to the operation of a large publicly-traded company in today's business environment, senior leadership experience, an understanding of our business, educational and professional background, and character. The Nominating/Corporate Governance Committee also considers the following attributes or qualities 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.

Although there is no formal policy on diversity of nominees, both the board of directors and the Nominating/Corporate Governance Committee believe that diversity of skills, perspectives and experiences as represented on the board as a whole, in addition to the primary factors, attributes or qualities discussed above, promotes improved monitoring and evaluation of management on behalf of the stockholders and produces more creative thinking and solutions. The Nominating/Corporate Governance Committee considers the distinctive skills, perspectives and experiences that candidates diverse in gender, ethnic background, geographic origin and professional experience offer in the broader context of the primary evaluation described above.





## Director Nomination Process

### Internal Process for Identifying Candidates

The Nominating/Corporate Governance Committee has two primary methods for identifying director nominees. 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 the Company'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 Bylaws, any such nominations must be 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 for the 2016 annual meeting. Stockholder nominations for our 2017 annual meeting of stockholders must be received at our principal executive offices on or after January 7, 2017 and not later than February 6, 2017.

Stockholder nominations must include the information set forth in Section 3.4 of our Bylaws and be accompanied by a written consent of each proposed nominee to being named as a nominee and to serving as a director if elected. A stockholder providing notice of a nomination must update and supplement the notice so that the information in the notice is true and correct as of the record date(s) for determining the stockholders entitled to receive notice of and to vote at the annual meeting. Any stockholder that intends to submit a nomination for the board of directors should read the entirety of the requirements in Section 3.4 of our Bylaws which can be found in the "Corporate Governance" section of our website at <http://investor.healthsouth.com>.

Our Bylaws provide for reimbursement of certain reasonable expenses incurred by a stockholder or a group of stockholders in connection with a proxy solicitation campaign for the election of one nominee to the board of directors. This reimbursement right is subject to conditions including the board of director's determination that reimbursement is consistent with its fiduciary duties. Following the annual meeting, we will reimburse certain expenses that a nominating stockholder, or group of nominating stockholders, has incurred in connection with nominating a candidate for election to our board of directors if the conditions set out in Section 3.4(c) of our Bylaws are met. If those conditions are met and the proponent's nominee is elected, we will reimburse the actual costs of printing and mailing the proxy materials and the fees and expenses of one law firm for reviewing the proxy materials and one proxy solicitor for conducting the related proxy solicitation. If those conditions are met and the proponent's nominee is not elected but receives 40% or more of all votes cast, we will reimburse the proportion of those qualified expenses equal to the proportion of votes that the nominee received in favor of his or her election to the total votes cast. In all cases, reimbursement will only be made if the nominating stockholders are liable for such expenses regardless of the outcome of the election of directors or receipt of reimbursement from us and no party to which such amounts are payable is an affiliate or associate of any of the nominating stockholders. In no event may the amount paid to a nominating stockholder exceed the amount of corresponding expenses incurred by us in soliciting proxies in connection with the election of directors. Further, we will not reimburse expenses in the event that our board of directors determines that any such reimbursement is not in our best interests, would result in a breach of our board's fiduciary duties, would render us insolvent or cause us to breach a material obligation. For additional detail, please read Section 3.4(c) of our Bylaws which can be found in the "Corporate Governance" section of our website at <http://investor.healthsouth.com>.



#### Evaluation of Candidates

The Nominating/Corporate Governance Committee will consider all candidates duly identified 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 the committee believes 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.

#### Director Independence

##### Review of Director Independence

On an annual basis, our board of directors undertakes a review of the independence of the nominees as independent directors based on our Corporate Governance Guidelines. The board assesses 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 the Company and its subsidiaries, affiliates, or our independent registered public accounting firm. The board examines 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 the Company or their affiliates. The board further considers whether there are any charitable contributions to not-for-profit organizations for which our directors or immediate family members serve as executive officers. In connection with this determination, each director and executive officer completes a questionnaire which requires disclosure of any transactions with the Company in which the director or executive officer, or any member of his or her immediate family, has a direct or indirect material interest. There were no such director-related transactions or contributions in 2015.

##### Determination of Director Independence

Each of John W. Chidsey, Donald L. Correll, Yvonne M. Curl, Charles M. Elson, Joan E. Herman, Leo I. Higdon, Jr., Leslye G. Katz, 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, is not independent. Each of our 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. Additionally:

each member of the Audit Committee, the Compensation 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 each of Mr. Chidsey, Mr. Correll, and Ms. Katz qualifies as an "audit committee financial expert" within the meaning of SEC regulations; and each member of the Compliance/Quality of Care Committee and the Finance Committee was an independent director under our Corporate Governance Guidelines.

##### 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 \$120,000 in a twelve-month period during the last three years 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);

neither the director nor an immediate family member of the director has been affiliated with or employed by a present or former internal or external auditor of the Company;

neither the director nor an 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, 2015.

	Audit	Compensation	Compliance/ Quality of Care	Finance	Nominating/ Corporate Governance
Number of Meetings in 2015:	7	6	5	11	6
John W. Chidsey	Chair			X	
Donald L. Correll	X			X	
Yvonne M. Curl		Chair	X		
Charles M. Elson				Chair	X
Joan E. Herman		X	Chair		
Leo I. Higdon, Jr.		X			X
Leslye G. Katz	X			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, and internal control and compliance practices of the Company. 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;

review and evaluate our quarterly financial statements and annual audited financial statements with management and our independent auditor, including management's assessment of and the independent auditor's opinion regarding the effectiveness of the Company's internal control over financial reporting prior to the filing of those financial statements with the SEC;

discuss earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies with management;

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discuss policies with respect to risk assessment and risk management;  
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 and may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors.

#### 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 approve, or recommend to the independent members of the board of directors for approval, 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; 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 recommend to the board of directors corporate goals and objectives relevant to the compensation of the chief executive officer and evaluate the performance of the chief executive officer in light of those goals and objectives;

review and approve corporate goals and objectives relevant to the compensation of the other executive officers and evaluate the performance of those executive officers in light of those goals and objectives;

determine and approve, together with the other independent directors, the base compensation level and incentive compensation level for the chief executive officer;

determine and approve the compensation levels for the other executive officers;

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 (or recommend to the board of directors in the case of the chief executive officer) employment arrangements, 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 and may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors. The Compensation Committee has the sole authority to set the compensation for, and to terminate the services of, its advisors. As discussed in further detail in the table on page 38, the Compensation Committee engaged the independent compensation consultant, Frederic W. Cook & Co., Inc., to assist it in its review and evaluation of executive compensation practices. The Compensation Committee has reviewed the independence of Frederic W. Cook & Co. and of each individual employee of the firm with whom it works. Frederic W. Cook & Co. does not perform other services for the Company, and the total fees paid to Frederic W. Cook & Co. during fiscal 2015 did not exceed \$120,000. The Compensation Committee has determined Frederic W. Cook & Co. has no conflict of interest in providing advisory services.

#### 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 and cyber risk management activities and to ensure we deliver quality care to our patients. The committee is primarily responsible for overseeing, monitoring, and evaluating our 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 quality 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;
- oversee the cyber risk management program developed by the chief information officer and designed to monitor, mitigate and respond to cyber risks, threats, and incidents;
- review and approve annually the quality program description and the performance of the chief medical officer and the quality of care program;
- 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;
- review periodic reports from the chief information officer, including developments in cyber threat environment and cyber risk mitigation efforts; and
- review periodic reports from the chief medical officer regarding the Company's efforts to advance patient safety and 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 and may obtain the advice and assistance of outside advisors, including consultants and legal and accounting advisors.

#### 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 the Company'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 oversees our major activities with respect to mergers, acquisitions and divestitures. The committee also 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 financial and legal advisors.



## 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 for 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.

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 advisors.

## Compensation of Directors

In 2015, we provided the following annual compensation to directors who are not employees:

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>	Total (\$)
John W. Chidsey	115,000	145,036	—	41,175	301,211
Donald L. Correll	95,000	145,036	—	43,665	283,701
Yvonne M. Curl	108,709	145,036	—	43,665	297,410
Charles M. Elson	105,000	145,036	—	43,665	293,701
Joan E. Herman	101,484	145,036	—	9,522	256,042
Leo I. Higdon, Jr.	195,000	145,036	—	43,665	383,701
Leslye G. Katz	95,000	145,036	—	9,522	249,558
John E. Maupin, Jr.	105,000	145,036	—	43,665	293,701
L. Edward Shaw, Jr.	100,975	145,036	—	43,665	289,676

(1) The amounts reflected in this column are the retainer and chairperson fees earned for service as a director for 2015, regardless of when such fees are paid.

Each non-employee director received an award of restricted stock units with a grant date fair value, computed in accordance with Accounting Standards Codification 718, Compensation – Stock Compensation, of \$145,036 (3,416 units). These awards are fully vested in that they are not subject to forfeiture; however, no shares underlying a

(2) particular award will be issued until after the date the director ends his or her service on the board. As of December 31, 2015, each director held the following aggregate RSU awards: Mr. Chidsey – 49,875, Mr. Correll – 52,800, Ms. Curl – 52,800, Mr. Elson – 52,800, Ms. Herman – 12,590, Mr. Higdon – 52,800, Ms. Katz – 12,590, Dr. Maupin – 52,800, and Mr. Shaw – 52,800. There were no other outstanding stock awards.

(3)

Other than Mr. Grinney, whose option awards are disclosed under the table entitled “Outstanding Equity Awards at December 31, 2015,” no other directors had option awards outstanding at year end.

The amounts reflected in this column represent the value of additional RSUs granted as dividend equivalents in  
(4) connection with the payment of dividends on our common stock during 2015 as required by the terms of the original grants.

Our non-employee directors receive an annual cash retainer of \$95,000. In addition to the cash retainer, the following table sets forth the chairperson fees paid to compensate for the enhanced responsibilities and time commitment associated with the positions.

Chair Position	Fees Earned or Paid in Cash (\$)
Chairman of the Board	100,000
Audit Committee	20,000
Compensation Committee	15,000
Compliance/Quality of Care Committee	10,000
Finance Committee	10,000
Nominating/Corporate Governance Committee	10,000

Our non-employee directors may elect to defer all or part of their cash fees under our Directors' Deferred Stock Investment Plan. Elections are made prior to the beginning of the applicable year, and directors can only withdraw their participation effective before the beginning of the next year. Under the plan, amounts deferred by non-employee directors are promptly invested in our common stock by the plan trustee at the market price at the time of the payment of the fees. Stock held in the deferred accounts is entitled to any dividends paid on our common stock, which dividends are promptly invested in our common stock by the plan trustee at the market price. Fees deferred under the plan and/or the acquired stock are held in a "rabbi trust" by the plan trustee. Accordingly, the plan is treated as unfunded for federal tax purposes. Amounts deferred and any dividends reinvested under the plan are distributed in the form of our common stock upon termination from board service for any reason. Distributions generally will commence within 30 days of leaving the board. As of December 31, 2015, the number of shares held in the plan were: Dr. Maupin's 2,007 shares, Mr. Chidsey's 37,738 shares, and Mr. Shaw's 13,871 shares.

In addition, under our 2008 Equity Incentive Plan, each non-employee member of the board of directors receives a grant of restricted stock units valued at approximately \$120,000. In February 2015, the board of directors approved a change in the grant date from February to the date of the annual meeting of stockholders to align with the annual term of office for directors. To accommodate the delay in the grant date of the director award, the board approved a pro rated award of restricted stock units for the period of service in 2015 preceding the annual meeting date. This one-time stub period grant in February 2015 had a value of approximately \$25,000. When dividends are paid on our common stock, the directors receive the equivalent in restricted stock units based on the number of restricted stock units held and the value of the stock. The restricted stock units held by each director will be settled in shares of our common stock following the director's departure from the board.

In furtherance of the goal to align the interests of our management with those of our stockholders, we have equity ownership guidelines for senior management and members of the board of directors. Each non-employee director should own equity equal in value to at least \$300,000 within five years of appointment or election to the board. As of February 16, 2016, all of our non-employee directors have satisfied the guidelines.

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 believe these provisions are necessary to attract and retain qualified people who will be free from undue concern about personal liability in connection with their service to us.

## AUDIT COMMITTEE REPORT

The board of directors has the ultimate authority for effective corporate governance, including the role of oversight of the management of the Company. 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, the qualifications and selection of the independent registered public accounting firm engaged by the Company, and the performance of the Company'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, the Company's independent registered public accounting firm, is responsible for performing an independent audit of the Company's consolidated financial statements, for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles in the United States, 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, 2015, 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 (the "PCAOB") in Rule 3200T; and

received the written disclosures and the letter from PricewaterhouseCoopers LLP required by PCAOB Rule 3526 (Communication with Audit Committees Concerning Independence) and discussed with PricewaterhouseCoopers LLP its independence from the Company 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.

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, 2015, and management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for filing with the SEC. The Audit Committee has selected PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2016.

Audit Committee  
John W. Chidsey (Chairman)  
Donald L. Correll  
Leslye G. Katz

## COMPENSATION COMMITTEE MATTERS

### Scope of Authority

The Compensation Committee acts on behalf of the board of directors to establish the compensation of our executive officers, other than the chief executive officer, and provides oversight of the Company's compensation philosophy for senior management. The Compensation Committee reviews and recommends to the board of directors for final approval the compensation of the chief executive officer and the non-employee directors. The Compensation Committee also acts as the oversight committee and administrator with respect to our equity compensation, bonus and other compensation plans covering executive officers and other senior management. In overseeing those plans, the Compensation 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 Compensation Committee may not delegate any authority under those plans for matters affecting the compensation and benefits of the executive officers. The Compensation Committee may also delegate other responsibilities to a subcommittee comprised of no fewer than two of its members, provided that it may not delegate any power or authority required by any applicable law or listing standard to be exercised by the committee as a whole.

### Compensation Committee Interlocks and Insider Participation

None of the current members of our Compensation Committee is an officer or employee of the Company. 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 and incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

### Compensation Committee

Yvonne M. Curl (Chairperson)

Joan E. Herman

Leo I. Higdon, Jr.

L. Edward Shaw, Jr.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

In this section we present the key components of our executive compensation program. We examine why we compensate our executives in the manner we do and how these philosophies guide the individual compensation decisions for our named executive officers, or “NEOs.” Our 2015 compensation decisions were directed by our board of directors and its Compensation Committee, which we refer to as the “Committee” in this section only. For the fiscal year ended December 31, 2015, our NEOs were:

Name	Title
Jay Grinney	President and Chief Executive Officer
Douglas E. Coltharp	Executive Vice President and Chief Financial Officer
Mark J. Tarr	Executive Vice President and Chief Operating Officer
John P. Whittington	Executive Vice President, General Counsel and Secretary
Cheryl B. Levy	Chief Human Resources Officer

### EXECUTIVE SUMMARY

#### Strategy and Business Overview

HealthSouth is one of the nation’s largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 34 states and Puerto Rico through our network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. This structure allows us to provide a continuum of facility-based and home-based post-acute services to our patients and their families, which we believe will become increasingly important as coordinated care delivery models, such as accountable care organizations and bundled payment arrangements, become more prevalent.

#### 2015 Business Highlights and Recent Track Record

In 2015, we continued to successfully execute our business strategy:

- Net operating revenues increased by 31.5% over 2014 due primarily to strong volume growth in both of our operating segments and included the effects of our acquisitions of Encompass, Reliant, and CareSouth.
- Total inpatient rehabilitation facility, or “IRF,” patient discharges and same-store discharges grew 10.9% and 3.2%, respectively.
- Our functional outcomes for IRF patients continued to outpace the industry average, and they did so while we continued to increase our market share throughout 2015.
- Our hospitals treated more patients and enhanced outcomes in a highly cost-effective manner.
- We completed the acquisition of the operations of Reliant Health Partners, LLC which included 11 IRFs with a total of 902 beds in Texas, Massachusetts, and Ohio.
- Additionally, we continued our development efforts through construction of a de novo hospital in Franklin, Tennessee and the acquisition of Cardinal Hill Rehabilitation Hospital in Lexington, Kentucky. We began operating a joint venture hospital in Savannah, Georgia and entered into new joint ventures in Jackson, Tennessee; Westerville, Ohio; Broken Arrow, Oklahoma; Hot Springs, Arkansas; and Bryan, Texas.
- Patient quality of care for our home health business continues to be well above the national average while 30-day readmission rates are well below the national average.
- We acquired the home health and hospice agency operations of CareSouth Health System, Inc. adding a portfolio of 44 home health and 3 hospice locations in 7 states.
- Additionally, we opened four home health locations and two hospice locations and acquired ten home health locations and two hospice locations.
- We increased our quarterly cash dividend by 9.5% from \$0.21 per share to \$0.23 per share, and we repurchased 1.4 million shares of our common stock.

Our success in 2015 continued to build upon our success in prior years. We have achieved a consistent track record of superior performance.



- ü Our same-store IRF patient discharge volume growth has consistently outpaced competitors’.
- ü The functional improvement of our IRF patients has outpaced that of patients across the industry.
- ü The patient satisfaction and quality of care of our home health patients has outpaced the industry.

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ü We have posted strong growth rates across key operational metrics.

Operating Performance and Executive Compensation

We utilize performance objectives in our compensation plans which we believe will, over time, lead to enhanced stockholder value. Over the past several years, we established a track record of strong results from operations, and these results, as highlighted above, continued in 2015. Healthcare always has been a highly regulated industry. Successful healthcare providers are those who provide high-quality, cost-effective care and have the ability to adjust to changes in the regulatory and operating environments. We believe we have the necessary capabilities — scale, infrastructure, capital structure, and management — to adapt to changes and continue to succeed in a highly regulated industry, and we have a proven track record of doing so.

While we have demonstrated industry-leading volume growth and outcomes that have contributed to consistently solid and improving operating results for years, our executive compensation, as reported in the Summary Compensation Table on page 51, has remained relatively steady, and “realizable pay,” has reflected linkage between delivered executive compensation and total shareholder return, or “TSR.” As our share price has moved, so too has the ultimate value of prior years’ equity awards, which furthers the long-term alignment between our TSR and realizable pay.

For purposes of this discussion, we define “realizable pay” for a given year as:

- Actual base salary;
- plus
- Actual short-term incentive(s) earned in that year; plus
- Value of stock options where the December 31, 2015 share price exceeds the exercise price; plus
- Value of time-based restricted stock as of December 31, 2015; plus
- Value of performance-based restricted stock as of December 31, 2015 using the target number of shares for awards that have not yet completed the two-year performance period and the attained number of shares for awards that have completed the two-year performance period.

Overview of Executive Compensation Actions in 2015

In February 2015, the Committee considered the total compensation packages, both in whole and by component, of our NEOs to determine appropriateness in light of our executive compensation philosophy, 2014 accomplishments, and 2015 anticipated challenges and took the following actions:

2015 Executive Compensation Actions Summary

Compensation Component	Actions Related to Plans from Prior Years	Actions Related to 2015 Plans
Base Salary	Not applicable.	<ul style="list-style-type: none"> <li>• NEO base salaries were unchanged from 2014.</li> <li>• Approved 2015 design with no change in target award opportunity.</li> <li>• Introduced "plan within a plan" design to increase flexibility while supporting deductibility.</li> </ul>
Senior Management Bonus Plan (“SMBP”)	Approved 2014 SMBP awards based on performance compared to targets; awards equaled a weighted average of 85.0% of target opportunity.	<ul style="list-style-type: none"> <li>• Retained adjusted consolidated earnings before interest, tax, depreciation and amortization expenses, or “Adjusted EBITDA,” and Program Evaluation Model (“PEM”) Score Ranking (defined below) as the corporate performance metrics.</li> <li>• Increased individual objectives maximum achievement opportunity to 200%.</li> </ul>
Long-Term Incentive Plan (“LTIP”)	Approved 2013 LTIP award payouts based on performance compared to targets for the 2013-2014 performance period; awards reflected 107.5% of target opportunity.	<ul style="list-style-type: none"> <li>• Approved 2015 design; increased Mr. Grinney's award by \$500,000; no change in target award opportunity for all other NEOs.</li> <li>• Retained 2014 design of performance-based restricted stock awards with three metrics: earnings per share, or “EPS,” return on invested capital, or “ROIC,” and relative total shareholder return, or “TSR.”</li> </ul>

Response to 2015 Proxy Votes

We believe the 98.9% affirmative vote on our 2015 “say-on-pay” vote signaled to the Committee that our stockholders support our current executive compensation program. In 2015 and 2016, we have made minor changes to our executive compensation program designed to align our plans with our business strategy in an evolving healthcare market while continuing to emphasize performance-based compensation. One such change is the introduction of a “quality scorecard” for our Senior Management Bonus Plan for 2016 focusing our executives on returning patients to their optimal level of independence.

## EXECUTIVE COMPENSATION PHILOSOPHY

HealthSouth's executive compensation philosophy is to:

- provide a competitive rewards program for our senior management that aligns management's interests with those of our long-term stockholders;
- correlate compensation with corporate, regional and business unit outcomes by recognizing performance with appropriate levels and forms of awards;
- establish financial and operational goals to sustain strong performance over time;
- place 100% of annual cash incentives and a majority of equity incentive awards at risk by directly linking those incentive payments and awards to the Company's and individual's performance; and
- provide limited executive benefits to members of senior management.

We believe this philosophy will enable us to attract, motivate, and retain talented and engaged executives who will enhance long-term stockholder value.

## Pay and Performance

Our executive compensation program is designed to provide a strong correlation between pay and performance. Pay refers to the value of an executive's total direct compensation, or "TDC."

Total Direct Compensation = Base Salary + Annual Cash Incentive + Long-Term Equity Incentives

## 2015 NEO Target Total Direct Compensation

Named Executive Officer	Base Salary	Target Annual Cash Incentive (% of Base)	Target Long-Term Equity Incentive (% of Base)	Target Total Direct Compensation
Jay Grinney	\$1,000,000	100%	550%	\$7,500,000
Douglas E. Coltharp	525,000	75%	150%	1,706,250
Mark J. Tarr	625,000	80%	200%	2,375,000
John P. Whittington	527,000	60%	150%	1,633,700
Cheryl B. Levy	345,000	50%	100%	862,500

In 2015, all cash incentive target amounts and a substantial majority of NEO equity award values were dependent on performance measured against certain pre-determined, board-approved objectives. The graphs below reflect: (i) the timeframe (i.e., annual vs. long-term) for our NEOs to realize the value of the various TDC components and (ii) the extent to which our NEOs' 2015 target TDC is performance-based.

Annually, as a "checkup" of pay and performance, Frederic W. Cook & Co. prepares an analysis of the prior year TDC for the NEOs and the reported prior year TDC for the NEOs of our peer companies for the "Healthcare Peer Group" (as identified below). This analysis includes our rankings against the peer group for several key financial and operating performance metrics for one-, three-, and five-year periods. These metrics are grouped into four categories: "growth," "operating performance," "returns," and "investor experience." The Committee has not taken any specific action in response to this information but does consider it in assessing whether the Company is paying for performance – both absolute and relative to peers. During the October 2015 review, for periods ending in 2014, HealthSouth's performance was at or above median for 24 of these metrics while falling below median for just 6 of these metrics. As part of this same comparison, CEO actual TDC fell just below the 60th percentile while the balance of the NEOs, as a group, fell between the 40th and 50th percentile.

Other Best Practices

To ensure the Company has strong corporate governance and risk mitigation, the board of directors also adopted the following best practices related to executive compensation:

- Both our annual and long-term incentive plans have maximum award features;
- Our annual and long-term incentive plans are designed with multiple measures of performance;
- Our annual incentive plan includes both financial and quality metrics;
- Our compensation recoupment, or “claw-back,” policy applies to both cash and equity incentives;
  - Equity ownership guidelines for our senior executives and directors require our senior executives to retain 50% of their net shares at the time of exercise/vest until their ownership multiple is met;
- Our insider trading policy expressly prohibits hedging or pledging of our stock by our executives and directors;
- Supplemental executive benefits or perquisites are substantially limited to a nonqualified 401(k) plan and, in the case of our chief executive officer, supplemental long-term disability coverage;
- The Committee’s independent consultant, Frederick W. Cook & Co., is retained directly by the Committee and performs no other work for the Company;
- Independent sessions are scheduled at every regular meeting of our board and the Committee (no members of management are present at these independent sessions); and
- Our change-of-control compensation arrangements include a “double trigger” requiring generally both a change in control and termination of employment to receive cash benefits and accelerated vesting of equity (for awards granted after December 2014) and do not provide tax gross-ups.

DETERMINATION OF COMPENSATION

Key Participants Roles and Responsibilities

Compensation Committee	<p>Oversees our compensation and employee benefit objectives, plans, and policies. Reviews and approves (or recommends for approval of the independent directors of our board in the case of the chief executive officer) the individual compensation of the executive officers. The Committee is comprised solely of four independent directors. Its responsibilities, as it relate to the compensation of our NEOs, include:</p> <ul style="list-style-type: none"> <li>• review and approve the Company’s compensation programs and policies, including incentive compensation plans and equity-based plans;</li> <li>• review and approve corporate goals and objectives relevant to the compensation of our NEOs, then (i) evaluate their performance and (ii) determine and approve their base compensation levels and incentive compensation based on this evaluation; and, in the case of our chief executive officer, recommend such to the board for approval; and</li> <li>• review personal benefits provided to our NEOs and recommend any changes to the board.</li> </ul> <p>The Committee receives support from the chief human resources officer and her staff and also engages its own executive compensation consultant as described below.</p>
Chief Executive Officer	<p>Makes recommendations to the Committee regarding our executive compensation plans and, for all other NEOs, proposes adjustments to base salaries and awards under our annual incentive compensation and long-term equity-based plans, establishes individual objectives, and reviews with the Committee the performance of the other NEOs on their individual objectives.</p> <p>The chief executive and chief human resources officers regularly attend meetings of the Committee. Throughout the year, the Committee relies on Frederic W. Cook &amp; Co., Inc. for external executive compensation support. Frederic W. Cook &amp; Co. is retained by, and works directly for, the Committee and attends meetings of the Committee, as requested by the Committee chair. Frederic W. Cook &amp; Co. has no decision making authority regarding our executive compensation. Services provided include:</p>
Compensation Consultant	<p>Frederic W. Cook &amp; Co. has no decision making authority regarding our executive compensation. Services provided include:</p>

- updates and advice to the Committee on the regulatory environment as it relates to executive compensation matters;
- advice on trends and best practices in executive compensation and executive compensation plan design;
- market data, analysis, evaluation, and advice in support of the Committee's role; and
- commentary on our executive compensation disclosures.

Management has separately engaged Mercer (US) Inc. The scope of that engagement includes providing data and analysis on competitive executive and non-executive compensation practices. Mercer data on executive compensation practices was provided to the Committee, subject to review by, and input from, Frederic W. Cook & Co. Mercer also provides a diagnostic tool and support to our assessment of risk related to our compensation practices. Mercer does not directly advise the Committee in determining or recommending the amount or form of executive compensation.

### Assessment of Competitive Compensation Practices

The Committee does not employ a strict formula in determining executive compensation. A number of factors are considered in determining executive base salaries, annual incentive opportunities, and long-term incentive awards, including:

- the executive’s responsibilities,
- the executive’s experience,
- the executive’s performance,
- aspects of the role that are unique to the Company,
- internal equity within senior management, and
- competitive market data.

To assess our NEOs’ target total direct compensation, the Committee reviews competitive data from two sources: compensation survey data noted below, and

healthcare peer group data - Frederic W. Cook & Co., at the direction of the Committee, assembles data for a targeted group of healthcare industry peers.

The survey data provides a significant sample size, includes information for management positions below senior executives, and includes broader healthcare companies and other industries from which we might recruit for executive positions.

#### Survey Sources

Mercer Benchmark

Aon Hewitt Total Compensation

Mercer Integrated Health Networks

Towers Watson Executive

For 2015, the healthcare peer group was derived through an annual review of potential peers conducted with the Committee’s Compensation Consultant. This peer group provided data for companies similar to us in terms of industry segment, revenue size, and exposure to Medicare as a revenue source, and market capitalization. The Committee believes these data sources provide a comprehensive perspective on competitive pay levels and practices.

Due to reductions in the number of companies meeting the peer group criteria (primarily due to acquisitions), the resulting benchmark data was becoming less reliable and potentially more volatile. For compensation awards granted in 2016, the Committee redefined the peer group to be a subset of the “total shareholder return peer group” (as identified below) composed of all companies in the total shareholder return peer group with revenues between 1/3 and 3 times that of HealthSouth.

#### 2015 Healthcare Peer Group

Amedisys	Kindred Healthcare	Tenet Healthcare
Chemed	Lifepoint Health	Universal Health Services
Community Health Systems	Select Medical Holdings	

#### 2016 Healthcare Peer Group

Acadia Healthcare	The Ensign Group	Mednax
Amedisys*	Envision Healthcare	Quest Diagnostics
Amsurg	Kindred Healthcare*	Select Medical Holdings*
Brookdale Senior Living	LabCorp Holdings	Team Health Holdings
Chemed*	Lifepoint Health*	Universal Health Services*

\*Carryovers from 2015 peer group. Community Health Systems and Tenet Healthcare were removed.

The Committee reviews competitive data on base salary levels, annual incentives, and long-term incentives for each executive and the NEO group. In 2015, the Committee reviewed total direct compensation opportunities for our NEOs, while referencing the 50th percentile of both the Mercer survey data and the healthcare peer group data in addition to the assessment factors discussed above. For purposes of competitive analysis of our chief executive officer’s compensation, the Committee places emphasis on the healthcare peer group data because other healthcare industry companies provide the most direct comparison. It is important to note the Committee, with input from Frederic W. Cook & Co., recognizes the benchmark data changes from year to year, so the comparison against those benchmarks places emphasis on sustained compensation trends to avoid short-term anomalies. In general, the Committee views compensation 10% above or below the targeted percentile as within a competitive range given year

to year variability in the data.

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The Committee has considered the appropriate competitive target range to attract and retain the kind of executive talent necessary to successfully achieve our strategic objectives. The Committee’s objective is to establish target performance goals that will result in strong performance by the Company. Executives may achieve higher actual compensation for exceptional performance relative to these target performance goals and below-median levels of compensation for performance that is not as strong as expected.

As stated previously, the Committee received from Frederic W. Cook & Co. an analysis of the 2016 Healthcare Peer Group data for 2014 that was included in proxies filed during 2015. Mr. Grinney’s target TDC in 2015 fell slightly above the 60th percentile of the healthcare peer group’s 2014 target data. The 2015 target TDC for Mr. Tarr, Mr. Coltharp, and Ms. Levy fell below the 50th percentile of the competitive market while the target TDC for Mr. Whittington fell slightly above the 50th percentile. As another test of overall reasonableness, the Committee compared the aggregate target TDC of our NEO group to the aggregate amounts from the companies in the healthcare peer group, and our aggregate target TDC amount was slightly above the 50th percentile.

#### ELEMENTS OF EXECUTIVE COMPENSATION

##### Elements of Total Rewards at a Glance

Total Reward Component	Purpose	2015 Actions
Base Salary	Provide our executives with a competitive level of regular income.	No base salary increases for any NEO.
Annual Incentives	Intended to drive Company and individual performance while focusing on annual objectives.	Maintained 2014 targets for all NEOs; retained Adjusted EBITDA and PEM Score Ranking as weighted metrics while shifting more weight to Adjusted EBITDA; raised the maximum award for Individual Objectives component from 100% to 200%.
Long-Term Incentives	Intended to focus executive attention on longer-term strength of the business and align their interests with our stockholders.	Increased target value of Mr. Grinney's award by \$500,000; maintained 2014 targets for all other NEOs; continued use of EPS, ROIC and Relative TSR as performance metrics; continued time-based restricted stock and stock options.
Health and Welfare Benefits	Provide our executives with programs that promote health and financial security.	No changes.
Perquisites	Limited to supplemental tax deferral.	No changes.
Change in Control and Severance	Provides business continuity and temporary income during periods of transition.	No changes.

The primary elements of our executive compensation program are:

Base Salary + Annual Cash Incentives + Long-Term Equity Incentives

##### Base Salary

We provide executives and other employees with base salaries to compensate them with regular income at competitive levels. Base salary considerations include the factors listed under “Assessment of Competitive Compensation Practices” above.

Base salaries for all of the NEOs were determined to be appropriate and competitive and maintained at the current levels to manage fixed expenses.

##### 2015 Fiscal Year-End Annual Base Salary

Jay Grinney	President and Chief Executive Officer	\$1,000,000
Douglas E. Coltharp	Executive Vice President and Chief Financial Officer	525,000
Mark J. Tarr	Executive Vice President and Chief Operating Officer	625,000
John P. Whittington	Executive Vice President, General Counsel and Secretary	527,000



Cheryl B. Levy

Chief Human Resources Officer

345,000

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#### Annual Incentives

The 2015 Senior Management Bonus Plan, or “SMBP,” was designed to incentivize and reward our NEOs and others for annual performance as measured against pre-determined corporate quantitative and individual objectives intended to improve the Company’s performance and promote stockholder value.

In order to provide the Committee with more flexibility in designing SMBP award structures that will result in tax deductible payments, in 2015, the Committee adopted a “plan within a plan” design. First, the award pool is funded if the Company meets the pre-established performance metric which, for fiscal 2015, was 50% of budgeted “as reported” Adjusted EBITDA. Second, assuming the SMBP award pool is funded, the Committee may exercise discretion in determining awards based on our traditional SMBP approach described below. For 2015, the funding threshold was exceeded resulting in a fully funded award pool.

#### Plan Objectives and Metrics

For 2015, the corporate quantitative objectives of consolidated Adjusted EBITDA<sup>1</sup> and Program Evaluation Model (“PEM”) Score Ranking were continued from 2014. The weightings for these two metrics were revised as highlighted below to reflect a greater emphasis on financial performance following the Encompass integration as the PEM Score Ranking has applicability only to the traditional inpatient rehabilitation portion of our business.

#### 2015 SMBP Corporate Quantitative Objective Weighting Changes

Corporate Objective	2014 Weight	2015 Weight	Rationale for Metric
Adjusted EBITDA	70%	80%	Prevalent, industry-relevant measure of profitability
PEM Score Ranking	30%	20%	Key quality metric that evaluates the functional gains of our patients

The weightings and payout ranges for our 2015 corporate quantitative objectives are as follows:

#### 2015 SMBP Corporate Objectives

Objective	Weight	Award Range			
		Not Eligible	Threshold	Target	Maximum
Adjusted EBITDA	80%	<\$638,550,000	\$638,550,000	\$681,608,000	≥\$732,729,000
PEM Score Ranking (% of hospitals at, or above, hospital-specific PEM Score goals)	20%	<60%	60%	70%	≥80%

To reward exceptional performance, the NEOs have the opportunity to receive a maximum payout in the event actual results reach a predetermined level for each objective. Conversely, if attained results are less than threshold for a component of the corporate quantitative objectives, then no payout for that component of corporate quantitative objectives occurs. It is important to note the following:

- performance measures can be achieved independently of each other; and
- as results increase above the threshold, a corresponding percentage of the target cash incentive will be awarded. In other words, levels listed are on a continuum, and straight-line interpolation is used to determine the payout multiple between two payout levels shown in the table above.

<sup>1</sup> For purposes of the 2015 SMBP, Adjusted EBITDA is the same as the measure described in the 2015 Form 10-K, and the results may be adjusted further for certain unusual or nonrecurring unbudgeted items. Adjusted EBITDA is discussed in more detail, including reconciliations to corresponding GAAP financial measures, in Appendix A to this proxy statement. The Committee has established in advance the following four categories of adjustments for these unusual or nonrecurring unbudgeted items: acquisitions and divestitures, changes in capital structure, litigation expenses and settlements, and material legislative changes. The Committee believes these pre-approved categories help the metric to more accurately reflect items within management’s control while also minimizing unintended incentives or disincentives associated with the accounting impacts. For 2015, the items adjusted included: the unbudgeted Savannah Rehabilitation Hospital joint venture and the acquisitions of Cardinal Hill Rehabilitation Hospital, Reliant Hospital Partners, LLC and CareSouth Health System, Inc.

<sup>2</sup> For purposes of the 2015 SMBP, Program Evaluation Model (“PEM”) Score Ranking is a quality metric that evaluates the functional gains our patients achieve using the FIM<sup>®</sup> (Functional Improvement Measure) tool and each patient’s discharge status (e.g., to home or an acute care hospital). PEM Scores from all HealthSouth hospitals are submitted to the Uniform Data System, or “UDS,” database to compare each HealthSouth hospital’s performance against the industry. The measurement of the PEM Score Ranking is the aggregation of the Company’s year-end, hospital-specific PEM Scores vs. hospital-specific PEM Score goals; each hospital-specific PEM Score and hospital-specific PEM Score goal are stated as a percentile of the national UDS PEM Score database. FIM<sup>®</sup> is a registered trademark of UDS for Medical Rehabilitation, a division of UB Foundation Activities, Inc.

In addition to corporate quantitative objectives for each NEO, we specify individual, measurable objectives weighted according to importance. The independent members of our board establish Mr. Grinney's individual objectives. Mr. Grinney establishes two to four individual objectives for the other NEOs, subject to review by the Committee. The individual objectives reflect objectives specific to each NEO's position and also corporate objectives. Additionally, if we fail to attain at least achievement of 80% of the target level for Adjusted EBITDA, then no payout for the individual objectives occurs. A formal assessment of each NEO's performance against his or her individual objectives is reviewed and approved by the Committee.

The following table describes each of Mr. Grinney's individual objectives and completion status for 2015:

Individual Objectives	Completion Status
1. Refresh/update business strategy and plan and obtain support from the Board of Directors.	Achieved.
2. Meet/exceed targeted growth objectives of both segments: IRF and home health & hospice.	Achieved. IRF: Opened one de novo hospital and acquired 13 hospitals resulting in over 1,200 additional beds. HH&H: Acquired 59 locations. Achieved.
3. Pursue acquisition targets that become actionable.	IRF: Acquired Reliant in October 2015. HH&H: Acquired CareSouth in November 2015. Achieved.
4. Meet or exceed quality of care and patient satisfaction objectives.	IRF: 73% of hospitals met or exceeded PEM goals and 65% of hospitals met or exceeded Patient Satisfaction goals. HH&H: Readmission rate 16.0%, national average 16.9%; 80% of patients recommended agency, 79% national average; 84% of patients rated agency 9-10, 84% national average; care of patient 90%, national average 88%.
5. Successfully integrate IRF and Home Health & Hospice segments.	Achieved.
6. Maintain trustworthy relationship with investors.	Achieved.
7. Maintain proactive role with legislators and regulators.	Achieved.
8. Maintain positive, open, candid relationship with Board.	Achieved.
9. Provide strong, purposeful direction for the Company.	Achieved.
10. Maintain a strong, effective senior management team.	Achieved.
11. Maintain and update succession planning and leadership development for senior management.	Achieved.
12. Maintain a robust diversity agenda within the Company.	Achieved. Both employee and vendor diversity initiatives recognized by business community with multiple awards.

The individual objectives for the other NEOs were aligned with Mr. Grinney's individual objectives and the Company's quantitative objectives but specifically tailored to the functional responsibilities of that NEO. Accordingly, the ability of each NEO to achieve his or her individual objectives closely mirrored our ability to achieve targeted results for the corporate quantitative objectives. Mr. Grinney attempted to set the individual objectives and target performance levels such that, if an NEO's performance in each of his or her personal objectives met or exceeded the range of reasonable expectations, no less than 75% of the full award for his or her individual objectives would be earned. For 2015, the Committee approved making the overall award levels more competitive during periods of superior performance and to permit recognition for individual contributions that exceed established goals by raising the individual objectives award maximum to 200% (vs. 100% in prior years).

Establishing the Target Cash Incentive Opportunity

Under the SMBP, the Committee first approves a target cash incentive opportunity for each NEO, based upon a percentage of his or her base salary, “Target Cash Incentive Opportunity as a % of Salary” in the table below. This target cash incentive opportunity is established as a result of the Committee’s “Assessment of Competitive Compensation Practices” described above. The Committee then assigns relative weightings (as a percentage of total cash incentive opportunity) to the objectives. The relative weightings of the corporate quantitative objectives and individual objectives

take into account the executive's position, with the targets for executives with strategic responsibilities consisting of a higher corporate quantitative objectives weighting.

The table below summarizes the target cash incentive and relative weightings of corporate quantitative and individual objectives for each NEO.

Named Executive Officer	Target Cash Incentive Opportunity as a % of Salary	Weightings		Relative Weighting as a % of Target Quantitative Objectives		
		Corporate Quantitative Objectives	Individual Objectives	Adjusted EBITDA (80%)	PEM Score Ranking (20%)	Individual Objectives
Jay Grinney	100%	80%	20%	64%	16%	20%
Douglas E. Coltharp	75%	80%	20%	64%	16%	20%
Mark J. Tarr	80%	80%	20%	64%	16%	20%
John P. Whittington	60%	80%	20%	64%	16%	20%
Cheryl B. Levy	50%	70%	30%	56%	14%	30%

#### Assessing and Rewarding 2015 Achievement of Objectives

After the close of the year, the Committee assesses performance against the corporate quantitative and individual objectives for each NEO to determine a weighted average result, or the percentage of each NEO's target incentive that has been achieved, for each objective. The Committee has the discretion to reduce awards. For 2015, results for the corporate quantitative objectives were as follows:

Objective	Target	Actual Result	% of Target Metric Achievement	Weight	Weighted Metric Achievement
Adjusted EBITDA	\$681,608	\$648,481	61.5%	80%	49.2%
PEM Score Ranking	70.0%	73.4%	134.0%	20%	26.8%
Combined				100%	76.0%

The cash incentive attributable to individual objectives is determined by multiplying the relative weight of each NEO's individual objectives by the target cash incentive amount and then again by the percentage of the individual objectives achieved by that NEO. As described earlier, individual objective achievement is capped at 200%. The Committee and the other independent members of our board determined Mr. Grinney's individual objectives achievement. The Committee also concurred with Mr. Grinney on the individual objective achievements for the other NEOs.

#### 2015 Individual Objective Achievement

Named Executive Officer	Title	2015
Jay Grinney	President and Chief Executive Officer	100%
Douglas E. Coltharp	Executive Vice President and Chief Financial Officer	150%
Mark J. Tarr	Executive Vice President and Chief Operating Officer	150%
John P. Whittington	Executive Vice President, General Counsel and Secretary	100%
Cheryl B. Levy	Chief Human Resources Officer	135%

The Committee believes the degree of achievement of the quantitative and individual objectives strengthened our position in our industry and promoted the long-term interests of our stockholders, and thus warranted the cash incentive payments listed in the following table. The achievement levels above 100% reflected the additional responsibility and effort in connection with the three significant acquisitions and integrations in the past year. These amounts were paid in February 2016 and are included in the 2015 compensation set out in the Summary Compensation Table on page 51.

## 2015 Senior Management Bonus Plan Payouts

Named Executive Officer	Corporate Quantitative Objective Portion	Individual Objective Portion	Total Payout
Jay Grinney	\$608,000	\$200,000	\$808,000
Douglas E. Coltharp	239,400	118,125	357,525
Mark J. Tarr	304,000	150,000	454,000
John P. Whittington	192,250	63,240	255,490
Cheryl B. Levy	91,770	69,863	161,633

## Long-Term Incentives

To further align management's interests with stockholders, a significant portion of each NEO's total direct compensation is in the form of long-term equity awards. We believe such awards promote strategic and operational decisions that align the long-term interests of management and the stockholders and help retain executives. In support of our performance-driven total compensation philosophy, earned equity values are driven by stock price and financial and operational performance.

For 2015, our equity incentive plan provided participants at all officer levels with the opportunity to earn performance-based restricted stock, or "PSUs," time-based restricted stock, or "RSAs," and, for the chief executive officer and the executive vice presidents, stock options. We believe these awards align all levels of management with stockholders and place a significant portion of TDC at risk. RSAs are included to enhance retention incentives. The 2015 value of the long-term incentive awards to the NEOs as a percentage of their base salaries remained consistent with 2014 for all NEOs with the exception of Mr. Grinney. The board approved an increase in Mr. Grinney's long-term incentive grant opportunity to \$5.5 million (from \$5.0 million in 2014) to recognize his sustained performance and the completion of the transformative acquisition of Encompass. The board chose to recognize his performance and the acquisition through increased long-term incentive opportunity because it links Mr. Grinney to ongoing performance and the success of the Encompass integration.

The following table summarizes the 2015 target equity award opportunity levels and forms of equity compensation for each of our NEOs. The values in this table reflect the intended target value approved by the Committee and board. These amounts differ from the equity awards values reported in the Summary Compensation Table on page 51 due to: the impact of the Monte Carlo simulation valuation of the relative TSR portion of the PSUs and the utilization of a 20-day average stock price to determine the number of shares granted as opposed to the grant date values used for accounting and reporting purposes.

## 2015 Target Equity Award Opportunity and Equity Compensation Mix (by value)

Named Executive Officer	Title	Total Target Equity Award Opportunity	Options as % of the Award	PSUs as a % of the Award	RSAs as a % of the Award
Jay Grinney	President and Chief Executive Officer	\$5,500,000	20%	60%	20%
Douglas E. Coltharp	Executive Vice President and Chief Financial Officer	787,487	20%	60%	20%
Mark J. Tarr	Executive Vice President and Chief Operating Officer	1,250,045	20%	60%	20%
John P. Whittington	Executive Vice President, General Counsel and Secretary	790,569	20%	60%	20%
Cheryl B. Levy	Chief Human Resources Officer	345,017	—	60%	40%

### Performance Share Unit Awards in 2015

The Committee determined that performance-based vesting conditions for the majority of restricted stock granted to NEOs are appropriate to further align executives with the interests of stockholders and promote specific performance objectives while facilitating executive stock ownership. Under our equity incentive plan, NEOs may be awarded PSUs, which entitle them to receive a pre-determined range of restricted shares upon achievement of specified performance objectives. PSU awards do not provide for voting rights unless and until restricted stock is earned after the measurement period. In conjunction with the initiation of regular common stock dividends in October 2013, our board of directors awarded dividend equivalent rights on all outstanding PSUs. For 2015 PSUs, dividends accrue when paid on outstanding shares, but the holders of PSUs will not receive the cash payments related to these accrued dividends until the resulting common shares, if any, fully vest.

To recognize his contribution to HealthSouth's turnaround and success since his hire in 2004, beginning with Mr. Grinney's 2014 PSU awards, our board revised the vesting treatment upon his retirement. When Mr. Grinney retires, he will receive his full PSU award subject to performance attainment. Any resulting shares earned will not be released until the final vesting of the award. Our board believes this modified treatment strengthens his noncompete agreement and other restrictive covenants and links Mr. Grinney financially to the success of the CEO transition that would occur upon his retirement.

For the 2015 awards, the number of restricted shares earned will be determined at the end of a two-year performance period based on the level of achievement of the following metrics:

#### 2015 LTIP Objectives

Objective	Weight
Normalized Earnings Per Share ("EPS" <sup>3</sup> )	50%
Return on Invested Capital ("ROIC" <sup>4</sup> )	30%
Relative Total Shareholder Return ("TSR" <sup>5</sup> )	20%

The Committee chose these metrics because the Committee believes they are directly aligned with our stockholders' interests. If restricted shares are earned at the end of the two-year performance period, the participant must remain employed until the end of the following year at which time the shares fully vest.

It is important to note:

- Management provides a report to the Committee that sets out the calculations of the actual results and engages an accounting firm to produce a report on the accuracy of the calculations;
- if results attained are less than the threshold, then no restricted shares are earned for that performance measure in that performance period; and
- as results increase above the threshold, a corresponding percentage of target equity value will be awarded. In other words, levels listed are on a continuum, and straight-line interpolation is used to determine the payout multiple between two payout levels shown in the table above.

<sup>3</sup> For purposes of the 2015 LTIP, EPS is calculated on a weighted-average diluted shares outstanding basis by adjusting net income from continuing operations attributable to HealthSouth for the normalization of income tax expense and certain unusual or nonrecurring unbudgeted items. The Committee has established in advance the following four categories for these unusual or nonrecurring unbudgeted items for Committee consideration: acquisitions and divestitures, changes in capital structure, litigation expenses and settlements, and material legislative changes. The Committee believes these pre-approved categories help the metric to more accurately reflect items within management's control while also minimizing unintended incentives or disincentives associated with the accounting treatment for unbudgeted, discretionary transactions. For the performance period ended December 31, 2015, those items included: consolidation of Fairlawn hospital; acquisition of Quillen Rehabilitation Hospital, Encompass, Cardinal Hill Rehabilitation Hospital, Reliant, and CareSouth, and initiation of the Savannah Rehabilitation Hospital joint venture; impact from unbudgeted debt refinancing transactions; impact from our common stock repurchases; impact from unbudgeted settlements and professional fees for legal matters; and gains or recoveries from the Richard Scrushy verdict. The diluted share count is calculated on the same basis as the diluted shares outstanding in our 2015 Form 10-K and includes shares related to the potential conversion of our convertible



senior subordinated notes as well as those associated with restricted stock awards, restricted stock units, and dilutive stock options. The diluted share count for 2015 was adjusted for the impact from our common stock repurchases as noted above. The calculation of normalized earnings per share differs from that of earnings per share used in our earnings releases and publicly available financial guidance. We believe the calculation for compensation purposes for 2015 more accurately represents those matters within the control of management compared to the calculation used in communications with the market.

<sup>4</sup> For purposes of the 2015 LTIP, ROIC is defined as adjusted earnings divided by average total assets on the balance sheet as of December 31, 2014, 2015, and 2016, excluding deferred tax assets and assets from discontinued operations. Both the numerator and the denominator are adjusted for the applicable unusual or nonrecurring unbudgeted items as described in the note above. Adjusted earnings is defined as income from continuing operations attributable to HealthSouth common shareholders before interest expense, excluding government, class action and related settlements, professional fees - accounting, tax, and legal and loss on early extinguishment of debt and adjusted by normalized income tax expense.

<sup>5</sup> For purposes of the 2015 LTIP, relative TSR is calculated by dividing the sum of the change in share price over the two-year period and the per share amount of dividends paid, if any, by the beginning share price for the measurement period. In each case, the share price used is the average for the 60-day period preceding the measurement date.

For 2015, the Committee approved the TSR Peer Group. This group was derived by filtering the healthcare providers of the Russell 3000 index to exclude: insurance, medical device, supply chain, veterinary care and pharmaceutical companies resulting in the following 25 companies:

#### TSR Peer Group

Acadia Healthcare Company	Envision Healthcare	Quest Diagnostics
Almost Family	Gentiva Health Services	Select Medical Holdings
Amedisys	HCA	Skilled Healthcare Group
Amsurg	IPC-The Hospitalist Company	Team Health
Brookdale Senior Living	Kindred Healthcare	Tenet Healthcare Corporation
Capital Senior Living	Laboratory Corp of America	The Ensign Group
Chemed Corporation	LHC Group	Universal Health Services
Community Health Systems	LifePoint Hospitals	
DaVita HealthCare Partners	MEDNAX	

#### Summary of 2014 PSU Award Results

The 2014 PSU awards completed their performance period on December 31, 2015. EPS, ROIC, and TSR were the objectives with the following achievement levels:

Objective	Target	Actual Result	% of Target Metric Achievement	Weight	Weighted Metric Achievement	
EPS	\$4.23	\$3.93	85.8	% 50%	42.9	%
ROIC	14.8%	14.3%	75.0	% 30%	22.5	%
TSR	50th Percentile	27th Percentile	0.0	% 20%	0.0	%
Combined				100%	65.4	%

#### Time-Based Restricted Stock Awards in 2015

A portion of the 2015 award value was provided in RSAs to provide retention incentives to our executives and facilitate stock ownership, which further links executives to our stockholders. Under our equity incentive plan, NEOs may be granted RSAs which entitle them to receive a pre-determined number of restricted shares upon completion of a specified service period. The recipients of RSA awards have voting rights and rights to receive dividends. Dividends accrue when paid on outstanding shares, but the holders of RSAs will not receive the cash payments related to these accrued dividends until the resulting common shares fully vest.

For the 2015 RSA award, one-third of the shares awarded vest on the first anniversary of the award, one-third of the shares vest on the second anniversary of the award, and the final third vest on the third anniversary.

#### Stock Option Awards in 2015

We believe nonqualified stock options remain an appropriate means to align the interests of our most senior executives with our stockholders since they provide an incentive to grow stock price.

Each stock option permits the holder, for a period of ten years, to purchase one share of our common stock at the exercise price, which is the closing market price on the date of issuance. Options generally vest ratably in equal annual increments over three years from the award date. In 2015, the number of options awarded equaled 20% of the total target equity award opportunity approved for the related officer divided by the individual option value determined using the Black-Scholes valuation model.

#### Equity Award Timing

Our practice is to have the independent members on our board of directors approve, based on recommendations of the Committee, equity awards at the February board meeting which allows time to review and consider our prior year's performance. The number of shares of common stock underlying the PSU, RSA, and stock option awards is determined using the average closing price for our common stock over the 20-day trading period preceding the February board meeting at which the awards are approved. The strike price for the stock option awards is set at the closing price on the second trading day after the filing of our Form 10-K, which is also the date of issuance. This timing for the pricing and issuance of stock options allows for the exercise price to reflect a broad dissemination of our financial results from the prior year.



### Executive Compensation Program Changes for 2016

The target TDC opportunity for Mr. Grinney is unchanged for 2016. Effective February 28, Mr. Tarr's and Mr. Coltharp's annual base salaries were increased to \$650,000 and \$580,000 respectively. The target cash incentive opportunities as a percent of salary for Mr. Tarr, Mr. Coltharp, and Ms. Levy were increased to 85%, 80% and 60%, respectively. The total target equity award opportunity for Ms. Levy was increased to 125% of her annual base salary. These adjustments were approved in light of the following considerations: Mercer market analysis, expansion of the business, additional responsibilities, job performance, tenure, experience and internal equity/differentiation.

For the SMBP Corporate Quantitative Objectives, a "Quality Scorecard" concept was introduced to focus on quality metrics with applicability both inside and outside the traditional inpatient rehabilitation portion of our business. This concept allows us to compartmentalize quality metrics while permitting flexibility to adjust the metrics year-over-year as our business and the healthcare operating environment evolve. For 2016, the metrics within the Quality Scorecard are: Discharge to Community, Acute Transfer, Discharge to Skilled Nursing Facility, and Patient Satisfaction. As a consequence of this renewed quality emphasis, the rebalanced Corporate Quantitative Objectives weights are:

#### Senior Management Bonus Plan

#### Corporate Quantitative Objective Weighting Changes

2015		2016	
Corporate Objective	Weight	Corporate Objective	Weight
Adjusted EBITDA	80%	Adjusted EBITDA	70%
PEM Score Ranking	20%	Quality Scorecard	30%

For the LTIP, the number of performance metrics was reduced to two with the elimination of the TSR component to focus the executive team on factors emphasized by our investors which the team can directly impact. The ultimate goal of such change is to improve the shareholder experience. The revised metric weightings are:

#### 2016 LTIP Objectives

Objective	Weight
Normalized Earnings Per Share ("EPS")	60%
Return on Invested Capital ("ROIC")	40%

#### Benefits

In 2015, our NEOs were eligible for the same benefits offered to other employees, including medical and dental coverage. In addition, our executives are offered annual physicals on a voluntary basis. NEOs are also eligible to participate in our qualified 401(k) plan, subject to the limits on contributions imposed by the Internal Revenue Service. In order to allow deferrals above the amounts provided by the IRS, executives and certain other officers are eligible to participate in a nonqualified deferred 401(k) plan that mirrors the current qualified 401(k) plan. Other than the nonqualified deferred 401(k) plan referenced here, we did not provide our executives with compensation in the form of a pension plan or a retirement plan. Mr. Grinney receives long-term disability coverage above the level offered broadly to our employees.

#### Perquisite Practices

We do not have any perquisite plans or policies in place for our executive officers. In general, we do not believe such personal benefit plans are necessary for us to attract and retain executive talent. We do not provide tax payment reimbursements, gross ups, or any other tax payments to any of our executive officers. We pay premiums for group-term life insurance and long-term disability insurance for all employees. From time to time, officers and directors may be allowed, if space permits, to have family members accompany them on business flights on our aircraft, at no material incremental cost to us.

OTHER COMPENSATION POLICIES & PRACTICES

Equity Ownership Guidelines for Management and Non-Employee Directors

To further align the interests of our management with those of our stockholders, we have adopted equity ownership guidelines for senior management and members of our board of directors.

Covered individuals have five years to reach their ownership level and upon each tax recognition or option exercise event, a covered officer must hold at least 50% of the after-tax value of the related equity award until ownership levels are achieved. Equity grants to our non-employee directors must be held until the director leaves the board. All of our NEOs and non-employee directors have satisfied the guidelines. Outlined in the table below are the ownership guidelines:

Position	Required Value of Equity Owned
chief executive officer	5 times annual base salary
executive vice president	3 times annual base salary
other executive officers	1.5 times annual base salary
outside director	\$300,000

Compensation Recoupment Policy

Our board of directors has approved and adopted a senior management compensation recoupment policy applicable to awards granted and incentive compensation paid after January 1, 2010. The policy provides that if the board has, in its sole discretion, determined that any fraud, illegal conduct, intentional misconduct, or gross neglect by any officer was a significant contributing factor to our having to restate all or a portion of our financial statements, the board may:

- require reimbursement of any incentive compensation paid to that officer,
- cause the cancellation of that officer’s restricted or deferred stock awards and outstanding stock options, and
- require reimbursement of any gains realized on the exercise of stock options attributable to incentive awards, if and to the extent (i) the amount of that compensation was calculated based upon the achievement of the financial results that were subsequently reduced due to that restatement and (ii) the amount of the compensation that would have been awarded to that officer had the financial results been properly reported would have been lower than the amount actually awarded.

Additionally, if an officer is found to have committed fraud or engaged in intentional misconduct in the performance of his or her duties, as determined by a final, non-appealable judgment of a court of competent jurisdiction, and the board determines the action caused substantial harm to HealthSouth, the board may, in its sole discretion, utilize the remedies described above.

Anti-Hedging Policy

The Company prohibits the following transactions for executive officers and directors:

- short-term trading of our securities,
- short sales of our securities,
- transactions in publicly traded derivatives relating to our securities,
  - hedging or monetization transactions, such as zero-cost collars and forward sale contracts,
  - and
- pledging of our securities as collateral, including as part of a margin account.

Severance Arrangements

It is not our practice to enter into individual employment agreements with our senior executives. In connection with the acquisition of Encompass Home Health on December 31, 2014, we did enter into an employment agreement with April Anthony who, as Chief Executive Officer and President of Encompass, is one of our executives. To provide our senior executives with competitive levels of security, potential benefits are provided to our senior executives under

our change of control and severance plans. The Committee determined the value of benefits were reasonable, appropriate, and competitive with our healthcare provider peer group. As a condition to receipt of any payment or benefits under either plan, participating employees must enter into a nonsolicitation, nondisclosure, nondisparagement and release agreement. As a matter of policy, payments under either plan do not include “gross ups” for federal taxes payable on amounts paid. Definitions of “cause,” “retirement,” “change in control,” and “good reason” are provided on page 56.

#### Executive Severance Plan

The goal of the Executive Severance Plan is to help retain qualified, senior officers whose employment is subject to termination under circumstances beyond their control. Our NEOs and all senior vice presidents are participants in the plan, which is an exhibit to our 2015 Form 10-K. Under the plan, if a participant’s employment is terminated by the participant for good reason or by HealthSouth other than for cause (as defined in the plan), then the participant is entitled to receive a cash severance payment, health benefits, and the other benefits described below. Voluntary retirement, death, and disability are not payment triggering events. The terms of the plan, including the payment triggering events, were determined by the Committee to be consistent with healthcare industry market data from the Committee’s and management’s consultants.

The cash severance payment for participants is the multiple (shown in the table below) of annual base salary in effect at the time of the event plus any accrued, but unused, paid time off, 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, except in the event of termination for cause or resignation for lack of good reason, the participants and their dependents continue to be covered by all life, healthcare, medical and dental insurance plans and programs, excluding disability, for a period of time set forth in the following table.

Position	Severance as Multiple of Annual Base Salary	Benefit Plan Continuation Period
chief executive officer	3x	36 months
executive vice presidents	2x	24 months
other executive officers	1x	12 months

Amounts paid under the 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 the plan, the participant must waive any entitlement to any other severance or termination payment by us, including any severance or termination payment set forth in any employment arrangement with us.

Upon termination of a participant without cause, or his or her resignation for good reason, a prorated portion of any equity award subject to time-based vesting only that is unvested as of the effective date of the termination or resignation will automatically vest. If any restricted stock awards are performance-based, the Committee will determine the extent to which the performance goals for such restricted stock have been met and what awards have been earned.

#### Change in Control Benefits Plan

The goal of the Change in Control Benefits Plan is to help retain certain qualified senior officers, maintain a stable work environment, and encourage officers to act in the best interest of stockholders if presented with decisions regarding change in control transactions. Our NEOs and other officers are participants in the plan, which is an exhibit to our 2015 Form 10-K. The terms of the plan, including the definition of a change in control event, were reviewed and updated in December 2014 to be consistent with healthcare industry market data from the Committee’s and management’s consultants including the adoption of a “double trigger” for the vesting of equity in the event of a change in control for all future awards to executives.

Under the Change in Control Benefits Plan, participants are divided into tiers as designated by the Committee. Messrs. Grinney and our executive vice presidents are Tier 1 participants; Ms. Levy is a Tier 2 participant.

If a participant’s employment is terminated within 24 months following a change in control or during a potential change in control, either by the participant for good reason (as defined in the plan) or by HealthSouth without cause, then the participant shall receive a lump sum severance payment. Voluntary retirement is not a payment triggering event. For Tier 1 and 2 participants, the lump sum severance is 2.99 times and two times, respectively, the sum of the

highest base salary in the prior three years and the average of actual annual incentives for the prior three years for the participant, plus a prorated annual incentive award for any incomplete performance period. In addition, except in the event of termination

for cause or resignation for lack of good reason, the participant and the participant’s dependents continue to be covered by all life, healthcare, medical and dental insurance plans and programs, excluding disability, for a period of 36 months for Tier 1 participants and 24 months for Tier 2 participants.

Incorporating the vesting “double trigger” included in the plan changes from December 2014 referenced above, if a change in control occurs as defined in the plan, outstanding equity awards vest as follows:

Award Date	Stock Options	Restricted Stock
On or Prior to December 31, 2014	Outstanding options vest and, for Tier 1 and 2 participants, all options will remain exercisable for three and two years, respectively. Outstanding options will only vest if the participant is terminated for good reason or without cause within 24 months of a change in control or if not assumed or substituted and, for Tier 1 and 2 participants, all options will remain exercisable for three and two years, respectively.	Restricted stock vests upon change in control. Restricted stock will only vest if the participant is terminated for good reason or without cause within 24 months of a change in control or if not assumed or substituted.
After December 31, 2014		

Note: For performance-based restricted stock, the Committee will determine the extent to which the performance goals have been met and vesting of the resulting restricted stock will only accelerate as provided above.

With respect to awards issued in and after 2015, the Committee has the authority to cancel an award in exchange for a cash payment in an amount equal to the excess of the fair market value of the same number of shares of the common stock subject to the award immediately prior to the change in control over the aggregate exercise or base price (if any) of the award.

#### Tax Implications of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally limits the tax deductibility of compensation paid to certain highly compensated executive officers in excess of \$1 million in the year the compensation otherwise would be deductible by the Company. There is an exception to the limit on deductibility for performance-based compensation that meets certain requirements. The Committee considers the impact of this rule when developing and implementing our executive compensation program in light of the overall compensation philosophy and objectives. The Committee seeks to balance the tax, accounting, EPS, and dilutive impact of executive compensation practices with the need to attract, retain, and motivate highly qualified executives. Although the Committee does design certain components of its executive compensation program to seek full deductibility, the Committee believes the interests of stockholders are best served by not restricting the Committee’s discretion and flexibility in crafting compensation programs, even though such programs may result in certain nondeductible compensation expenses. Accordingly, we have not adopted a policy that all compensation must qualify as deductible under Section 162(m) of the Code. Amounts paid under any of our compensation programs, including salaries, bonuses, and awards of options, restricted stock, and other equity-based compensation, may not qualify as performance-based compensation that is excluded from the limitation on deductibility. For example, a portion of our time-based restricted stock awards will likely not be deductible as they vest as a result of the \$1 million deduction limit.



## Summary Compensation Table

The table below shows the compensation of our 2015 named executive officers for services in all capacities in 2015, 2014, and 2013. For a discussion of the various elements of compensation and the related compensation decisions and policies, including the amount of salary and bonus in proportion to total compensation and the material terms of awards reported below, see “Compensation Discussion and Analysis” beginning on page 33. The Company had no employment agreements or compensation arrangements in effect with its NEOs in 2015, and there are no additional material terms, if any, of each NEO’s employment arrangement, except as discussed under “Severance Arrangements” beginning on page 48.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup>	All Other Compensation (\$) <sup>(4)</sup>	Total (\$)
Jay Grinney	2015	1,000,000	4,666,531	1,074,326	808,000	267,277	7,816,134
President and Chief Executive Officer	2014	1,000,000	4,154,566	999,726	870,000	375,793	7,400,085
	2013	1,000,000	3,853,692	1,034,363	1,284,800	182,542	7,355,397
Douglas E. Coltharp	2015	525,000	668,156	153,825	357,525	56,947	1,761,453
Executive Vice President and Chief Financial Officer	2014	525,000	654,382	157,448	346,500	85,555	1,768,885
	2013	525,000	606,967	162,917	417,312	45,182	1,757,378
Mark J. Tarr	2015	625,000	1,060,629	244,162	454,000	73,434	2,457,225
Executive Vice President and Chief Operating Officer	2014	620,833	997,120	239,931	435,000	97,751	2,390,635
	2013	600,000	693,679	186,183	469,728	53,776	2,003,366
John P. Whittington	2015	527,000	670,778	154,414	255,490	50,011	1,657,693
Executive Vice President, General Counsel and Secretary	2014	527,000	656,833	158,053	278,256	67,714	1,687,856
	2013	527,000	609,265	163,531	409,416	42,524	1,751,736
Cheryl B. Levy	2015	345,000	362,771	—	161,633	25,834	895,238
Chief Human Resources Officer	2014	345,000	358,168	—	153,353	33,715	890,236
	2013	345,000	332,194	—	218,938	17,942	914,074

The stock awards for each year were PSUs and the corresponding amounts shown in this column are the grant date fair values computed in accordance with Accounting Standards Codification Topic 718, Compensation - Stock Compensation, assuming the most probable outcome of the performance conditions as of the grant dates (i.e., target performance). The award amounts shown also include the value of RSA grants as part of the long-term incentive plan for the given year. All of the values in this column are consistent with the estimate of aggregate compensation expense to be recognized over the applicable vesting period, excluding any adjustment for forfeitures. The assumptions used in the valuations are discussed in Note 13, Share-Based Payments, to the consolidated financial statements in our 2015 Form 10-K.

The values of the PSU awards at the varying performance levels for our current NEOs are set forth in the table below.

Name	Year	Threshold Performance Value (\$)	Target Performance Value (\$)	Maximum Performance Value (\$)
Jay Grinney	2015	1,775,057	3,550,113	7,100,226
	2014	1,559,398	3,118,795	6,237,590
	2013	1,446,517	2,893,033	5,786,066
Douglas E. Coltharp	2015	254,161	508,321	1,016,642
	2014	245,615	491,230	982,460
	2013	227,827	455,654	911,308

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Mark J. Tarr	2015	403,444	806,888	1,613,776
	2014	374,273	748,545	1,497,090
	2013	260,375	520,750	1,041,500
John P. Whittington	2015	255,158	510,315	1,020,630
	2014	246,544	493,087	989,174
	2013	228,696	457,391	914,782
Cheryl B. Levy	2015	111,349	222,697	445,394
	2014	107,612	215,224	430,448
	2013	99,811	199,621	399,242

The values of option awards listed in this column are the grant date fair values computed in accordance with ASC 718 as of the grant date. All of the values in this column are consistent with the estimate of aggregate

(2) compensation expense to be recognized over the three-year vesting period, excluding any adjustment for forfeitures. The assumptions used in the valuations are discussed in Note 13, Share-Based Payments, to the consolidated financial statements in our 2015 Form 10-K.

(3) The amounts shown in this column are bonuses earned under our Senior Management Bonus Plan in the corresponding year but paid in February of the following year.

The items reported in this column for 2015 are described as set forth below. The amounts reflected in the “Dividend Rights” column are the aggregate values of dividends associated with outstanding restricted stock and PSU awards granted prior to February 2014. Because we only initiated a quarterly dividend on our common stock in October (4) 2013, dividend rights were not factored into the grant date fair values for awards granted prior to February 2014. Similarly, the grant date fair values for awards granted prior to the increases in the dividend rate to \$0.21 per share in October 2014 and to \$0.23 in October 2015 may not have factored in those incremental dividend rights, so the aggregate amount of dividend rights equivalent to those incremental increases is also included in this column. Cash dividends paid on our common stock in 2015 were, for pre-2014 awards, likewise paid in cash to holders of restricted stock but only accrued to holders of PSU awards. These accrued dividends are only paid if, and to the extent that, shares are earned as result of the PSUs’ performance attainment and are not forfeited prior to full vesting. Beginning with awards granted in February 2014, both RSA and PSU awards accrue rights to cash dividends that are only paid if the awards are not forfeited prior to full vesting. The dividend rights paid on or accruing to our equity awards are equivalent in value to the rights of common stockholders generally and are not preferential.

Name	Qualified 401(k) Match (\$)	Nonqualified 401(k) Match (\$)	Dividend Rights (\$)	Long-Term Disability Insurance (\$)
Jay Grinney	—	56,100	155,722	55,455
Douglas E. Coltharp	9,000	17,145	30,802	—
Mark J. Tarr	—	31,800	41,634	—
John P. Whittington	9,000	15,158	25,853	—
Cheryl B. Levy	6,878	5,374	13,581	—

For SEC purposes, the cost of personal use of the Company aircraft, if any, is calculated based on the incremental cost to us. To determine the incremental cost, we calculate the variable costs based on usage which include fuel costs on a per hour basis, plus any direct trip expenses such as on-board catering, landing/ramp fees, crew hotel and meal expenses, and other miscellaneous variable costs. Since Company-owned aircraft are used exclusively for business travel, the calculation method excludes the costs which do not change based on incremental non-business usage, such as pilots’ salaries, aircraft leasing expenses and the cost of maintenance not related specifically to trips.

Occasionally, our executives are accompanied by guests on the corporate aircraft for personal reasons when there is available space on a flight being made for business reasons. There is no incremental cost associated with that use of the aircraft, except for a pro rata portion of catering expenses and our portion of employment taxes attributable to the income imputed to that executive for tax purposes. There were no such amounts required to be reported for 2015.

Grants of Plan-Based Awards During 2015

Name	Grant Date	Date of Board Approval of Grant	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards:	All Other Option Awards:
			Threshold <sup>(3)</sup> (\$)	Target <sup>(4)</sup> (\$)	Maximum <sup>(5)</sup> (\$)	Threshold (#)	Target (#)	Maximum (#)	Number of Shares of Stock or Unit <sup>(6)</sup> (#)	Number of Securities Underlying Options <sup>(7)</sup> (#)
Jay Grinney			400,000	1,000,000	2,000,000	—	—	—	—	—
Annual Incentive PSU	2/19/2015	2/19/2015	—	—	—	37,288	74,576	149,152	—	—
Stock options	3/3/2015	2/19/2015	—	—	—	—	—	—	—	71,105
RSA Douglas E. Coltharp	2/19/2015	2/19/2015	—	—	—	—	—	—	24,859	—