

HEALTHSOUTH CORP
Form DEFR14A
April 23, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant X

Filed by a Party other than the Registrant O

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)

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

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 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
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 - (1) Amount previously paid:

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

 - (3) Filing Party:

 - (4) Date Filed:
-

EXPLANATORY NOTE

This Amendment No. 1 to our Definitive Proxy Statement is being filed to correctly state the number of shares of common stock of HealthSouth Corporation that were issued and outstanding as of March 19, 2008, the record date for the Annual Meeting of Stockholders to be held on May 8, 2008 at 11:00 a.m. The Proxy Statement dated March 27, 2008 stated that an aggregate of 87,861,271 shares of HealthSouth common stock and 400,000 shares of 6.50% Series A Convertible Perpetual Preferred Stock were issued and outstanding as of the record date and entitled to vote at the Annual Meeting. This total inadvertently included 8,536,603 shares of treasury stock. Accordingly, the Proxy Statement should have indicated that as of the record date there were 79,324,668 shares of HealthSouth common stock and 400,000 shares of 6.50% Series A Convertible Perpetual Preferred Stock issued and outstanding and entitled to vote at the meeting.

March 27, 2008

Dear Fellow Stockholder:

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

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

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

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

Sincerely,

/s/ JON F. HANSON

Jon F. Hanson

Chairman of the Board of Directors

HEALTHSOUTH CORPORATION

Notice of Annual Meeting of Stockholders

and

Internet Availability of Proxy Materials

TIME 11:00 a.m., central time, on Thursday, May 8, 2008

PLACE Cahaba Grand Conference Center
3660 Grandview Parkway (formerly One HealthSouth Parkway)
Birmingham, Alabama 35243
Directions to the annual meeting are available by calling investor relations at (205) 967-7116.

ITEMS OF BUSINESS (1) To elect ten directors to the board of directors to serve until our 2009 annual meeting of stockholders.

- **The Board of Directors recommends a vote FOR each nominee.**

(2) To ratify the appointment by the Audit Committee of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm.

- **The Board of Directors recommends a vote FOR ratification.**

(3) To approve the HealthSouth 2008 Equity Incentive Plan.

- **The Board of Directors recommends a vote FOR approval.**

(4) To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement.

RECORD DATE You can vote if you are a stockholder of record of the Company on March 19, 2008.

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

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- (1) Via internet: Go to <http://www.proxyvoting.com/hls> and follow the instructions. You will need to enter the control number printed on your proxy card;
- (2) By telephone: Call toll-free 1-866-540-5760 and follow the instructions. You will need to enter the control number printed on your proxy card;
- (3) In writing: Complete, sign, date and promptly return your proxy card in the enclosed envelope; or
- (4) Submit a ballot in person at the annual meeting of stockholders.

Important Notice Regarding the Availability of Proxy Materials

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

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

Birmingham, Alabama
March 27, 2008

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

TABLE OF CONTENTS

<u>Page</u>	
	<u>INTRODUCTION</u> 3
	<u>COMMONLY ASKED QUESTIONS</u> 3
	<u>ITEMS OF BUSINESS REQUIRING YOUR VOTE</u> 9
	<u>Proposal 1 – Election of Directors</u> 9
	<u>Proposal 2 – Ratification of Appointment of Independent Registered Public Accounting Firm</u> 11
	<u>Proposal 3 – Approval of HealthSouth 2008 Equity Incentive Plan</u> 13
	<u>CORPORATE GOVERNANCE AND BOARD STRUCTURE</u> 18
	<u>Corporate Governance</u> 18
	<u>Corporate Governance Guidelines</u> 18
	<u>Code of Ethics</u> 19
	<u>Corporate Website</u> 19
	<u>Board Policy Regarding Voting for Directors</u> 19
	<u>Communications to Directors</u> 19
	<u>Board Structure and Director Nominations</u> 20
	<u>Board Structure and Meetings</u> 20
	<u>Criteria for Board Members</u> 20
	<u>Director Nomination Process</u> 21
	<u>Internal Process for Identifying Candidates</u> 21
	<u>Proposals for Director Nominees by Stockholders</u> 21
	<u>Evaluation of Candidates</u> 22
	<u>Director Independence</u> 22
	<u>Review of Director Independence</u> 22
	<u>Determination of Director Independence</u> 22
	<u>Standards of Director Independence</u> 23
	<u>Committees of the Board of Directors</u> 23
	<u>Committee Memberships and Meetings</u> 23
	<u>Audit Committee</u> 24
	<u>Compensation Committee</u> 24
	<u>Compliance/Quality of Care Committee</u> 25
	<u>Finance Committee</u> 26
	<u>Nominating/Corporate Governance Committee</u> 26
	<u>Compensation of Directors</u> 27
	<u>Indemnification and Exculpation</u> 28
	<u>AUDIT COMMITTEE REPORT</u> 28
	<u>COMPENSATION COMMITTEE MATTERS</u> 29
	<u>Scope of Authority</u> 29
	<u>Role of Compensation Consultant</u> 29
	<u>Role of Executive Officers and Management</u> 30
	<u>Compensation Committee Interlocks and Insider Participation</u> 30
	<u>Compensation Committee Report</u> 30
	<u>EXECUTIVE COMPENSATION</u> 31
	<u>Compensation Discussion and Analysis</u> 31
	<u>Compensation Philosophy and Objectives</u> 31
	<u>Business Challenges and Achievements</u> 31
	<u>Determining Compensation</u> 33
	<u>Elements of Executive Compensation</u> 35

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<u>Employment Agreements</u>	<u>43</u>
<u>Adjustments to Compensation for Mr. Grinney and Mr. Workman</u>	<u>43</u>
<u>Changes to Executive Compensation</u>	<u>46</u>
<u>Summary Compensation Table</u>	<u>46</u>
<u>Grants of Plan-Based Awards During 2007</u>	<u>47</u>
<u>Employment Arrangements</u>	<u>48</u>
<u>Employment Arrangement of Jay Grinney</u>	<u>48</u>
<u>Employment Arrangements of Other Named Executive Officers</u>	<u>49</u>
<u>Potential Payments upon Termination of Employment</u>	<u>50</u>
<u>Outstanding Equity Awards at December 31, 2007</u>	<u>51</u>
<u>Options Exercised and Stock Vested in 2007</u>	<u>52</u>
<u>Equity Compensation Plans</u>	<u>52</u>
<u>1993 Consultants Stock Option Plan</u>	<u>52</u>
<u>1998 Restricted Stock Plan</u>	<u>52</u>
<u>2002 Non-Executive Stock Option Plan</u>	<u>52</u>
<u>2004 Amended and Restated Director Incentive Plan</u>	<u>53</u>
<u>2005 Equity Incentive Plan</u>	<u>53</u>
<u>Retirement Investment Plan</u>	<u>53</u>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>54</u>
<u>Review and Approval of Transactions with Related Persons</u>	<u>54</u>
<u>Transactions with Related Persons</u>	<u>54</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	<u>55</u>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>56</u>
<u>EXECUTIVE OFFICERS</u>	<u>57</u>
<u>GENERAL INFORMATION</u>	<u>58</u>
<u>APPENDIX A: HEALTHSOUTH 2008 EQUITY INCENTIVE PLAN</u>	<u>A-1</u>

HEALTHSOUTH CORPORATION

PROXY STATEMENT

INTRODUCTION

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

COMMONLY ASKED QUESTIONS

Why did I receive these proxy materials?

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

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

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

What do I need to attend the meeting?

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

Who is entitled to vote at the meeting?

The board of directors has determined that those stockholders who are recorded in our record books as owning shares of HealthSouth as of the close of business on March 19, 2008, are entitled to receive notice of and to vote at the annual meeting of stockholders. As of the record date, there were 79,324,668 shares of HealthSouth common stock issued and outstanding and 400,000 shares of 6.50% Series A Convertible Perpetual Preferred Stock issued and outstanding. Our preferred stock is convertible at the option of the holder at any time into shares of common stock at an initial conversion rate of 32.7869 shares of common stock per share of preferred stock, or an aggregate of 13,114,760 shares of common stock. Your shares may be (1) held directly in your name as the stockholder of record or (2) held for you as the beneficial owner through a stockbroker, bank or other nominee, or both. Our common stock and our preferred stock are our only classes of outstanding voting securities. Each share of common stock is entitled to one vote on each matter properly brought before the annual meeting. Each share of preferred stock is entitled to one vote on each matter properly brought before the annual meeting voting together with the common stock.

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

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

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

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

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

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

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

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

How can I vote my shares without attending the meeting?

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

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

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

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

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

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

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

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

Can I change my vote after I submit my proxy?

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

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

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

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

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

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

In accordance with notices previously sent to stockholders, HealthSouth is delivering one annual report and proxy statement in one envelope addressed to all stockholders who share a single address unless they have notified

us they wish to “opt out” of the program known as “householding.” Under this procedure, stockholders of record who have the same address and last name receive only one copy of proxy materials. Householding is intended to reduce our printing and postage costs. WE WILL DELIVER A SEPARATE COPY OF THE ANNUAL REPORT OR PROXY STATEMENT PROMPTLY UPON WRITTEN OR ORAL REQUEST. You may request a separate copy by contacting the office of investor relations at 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, or by calling (205) 967-7116.

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

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

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

What constitutes a quorum to transact business at the meeting?

Before any business may be transacted at the annual meeting, a quorum must be present. The presence at the annual meeting, in person or by proxy, of the holders of a majority of the shares of HealthSouth capital stock outstanding and entitled to vote on the record date will constitute a quorum. At the close of business on the record date, 79,324,668 shares of our common stock and 400,000 shares of our preferred stock were issued and outstanding. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the annual meeting for purposes of a quorum.

What is the recommendation of the board of directors?

Our board of directors recommends a vote:

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

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

What vote is required to approve each item?

There are different vote requirements for the proposals:

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

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

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

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

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

Where can I find the voting results of the meeting?

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

Who will count the votes?

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

Who will pay for the cost of this proxy solicitation?

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

Who should I contact if I have questions?

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

Mellon Investor Services, LLC

480 Washington Boulevard

Jersey City, New Jersey 07310-1900

Telephone: 888-261-6784

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

ITEMS OF BUSINESS REQUIRING YOUR VOTE**Proposal 1 – Election of Directors****Director Nominees**

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

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

* Denotes independent director.

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

Edward A. Blechschmidt

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

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John W. Chidsey

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

Donald L. Correll

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

Yvonne M. Curl

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

Charles M. Elson

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

Jay Grinney

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

Jon F. Hanson

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

Leo I. Higdon, Jr.

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

John E. Maupin, Jr.

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

L. Edward Shaw, Jr.

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

Board Recommendation

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

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

Appointment of PricewaterhouseCoopers LLP

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

The Audit Committee recognizes the importance of maintaining the independence of the Company's independent registered public accounting firm, both in fact and appearance. Consistent with its charter, the committee has evaluated PricewaterhouseCoopers LLP's qualifications, performance, and independence,

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

Pre-Approval of Principal Accountant Services

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

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

Principal Accountant Fees and Services

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

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

- (1) *Audit Fees* – Represents aggregate fees paid or accrued for professional services rendered for the audit of our consolidated financial statements and internal control over financial reporting for the years ended December 31, 2007 and 2006; fees for professional services rendered for the review of financial statements included in our 2007 Form 10-Qs; and fees for professional services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory engagements required by various partnership agreements or state and local laws in the jurisdictions in which we operate or manage facilities.
- (2) *Audit-Related Fees* – Represents aggregate fees paid or accrued for professional services rendered for the carveout financial statement audits of our surgery centers, outpatient, and diagnostic divisions for the year ended December 31, 2006.
- (3) *Audit Fees* – Represents aggregate fees paid or accrued for professional services rendered for the audit of our consolidated financial statements and internal control over financial reporting for the years ended December 31, 2006 and 2005; fees for professional services rendered for the review of financial statements included in our 2006 Form 10-Qs (including the review of quarterly information for 2005, which had never been presented); and fees for professional services that are normally provided by our independent registered public accounting firm in connection with statutory and regulatory engagements required by various partnership agreements or state and local laws in the jurisdictions in which we operate or manage facilities.
- (4) *Audit-Related Fees* – Represents aggregate fees paid or accrued for professional services rendered for the carveout financial statement audits of our surgery centers, outpatient, and diagnostic divisions for the years ended December 31, 2005 and 2004, and the carveout financial statement audit of our diagnostic division for the year ended December 31, 2003.
- (5) *All Other Fees* – Represents fees for all other products and services provided by our independent registered public accounting firm that do not fall within the previous categories. More specifically, these fees include amounts paid to PricewaterhouseCoopers LLP for services as our Independent Review Organization, as stipulated in the December 2004 Corporate Integrity Agreement. It also includes fees for professional services for transaction support associated with the divestitures of our surgery centers, outpatient, and diagnostic divisions.

Board Recommendation

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

Proposal 3 – Approval of HealthSouth 2008 Equity Incentive Plan

Introduction

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

Summary of 2008 Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For a qualified performance-based award, the Compensation Committee must establish such goals prior to the beginning of the period for which such performance goal relates (or such later date as may be permitted under applicable tax regulations) and the Compensation Committee may not increase any award or, except in the

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case of certain qualified terminations of employment, waive the achievement of any specified goal. Any payment of an award granted with performance goals will be conditioned on the written certification of the Compensation Committee in each case that the performance goals and any other material conditions were satisfied.

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

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

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

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

Certain Federal Tax Effects.

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

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

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

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

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

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

New Plan Benefits Table

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

In February 2008, the Compensation Committee approved certain equity grants that are reflective of the Compensation Committee's intent to shift aggressively to performance based equity awards for the executive officers and senior officer levels. At least half of the grant value of the most recent awards (two-thirds in the

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

<u>Name and Position</u>	<u>Dollar Value (\$)</u>	<u>Number of Units¹</u>
Jay Grinney – Chief Executive Officer	\$4,000,000	317,470 ²
John Workman – Chief Financial Officer	\$1,000,000	91,990 ³
John Whittington, Executive Vice President, General Counsel and Corporate Secretary	\$700,000	64,450 ⁴
Mark Tarr – Executive Vice President, Operations	\$700,000	64,450 ⁵
Executive Group (all of the above)	\$6,400,000	538,360
Non-Executive Director Group	\$810,000	49,788 ⁶
Non-Executive Officer Employee Group	\$8,532,000	455,750 ⁷

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

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

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

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

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

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

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

Board Recommendation

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

CORPORATE GOVERNANCE AND BOARD STRUCTURE

Corporate Governance

Corporate Governance Guidelines

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

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

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

Code of Ethics

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

Corporate Website

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

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

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

Board Policy Regarding Voting for Directors

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

Communications to Directors

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

HEALTHSOUTH CORPORATION

BOARD OF DIRECTORS

P.O. BOX 382827

BIRMINGHAM, ALABAMA 35238

ATTENTION: [Addressee*]

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

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

Board Structure and Director Nominations

Board Structure and Meetings

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

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

Criteria for Board Members

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

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

Director Nomination Process

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

Internal Process for Identifying Candidates

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

Proposals for Director Nominees by Stockholders

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

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

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

Evaluation of Candidates

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

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

Director Independence

Review of Director Independence

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

Determination of Director Independence

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

- each member of the Audit Committee, the Compensation Committee, the Compliance/Quality of Care Committee, and the Nominating/Corporate Governance Committee was an independent director under our Corporate Governance Guidelines and otherwise meets the qualifications for membership on such committee imposed by the NYSE and other applicable laws and regulations;