

REFINITIV

DELTA REPORT

10-K

ENCOMPASS HEALTH CORP

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

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TOTAL DELTAS	4074
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2022** **December 31, 2023**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-10315

Encompass Health Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

63-0860407

(I.R.S. Employer
Identification No.)

9001 Liberty Parkway
Birmingham, Alabama 35242
(Address of Principal Executive Offices)

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	EHC	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Emerging growth company ☐

Non-Accelerated filer ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately **\$5.5 billion** **\$6.7 billion**. For purposes of the foregoing calculation only, executive officers and directors of the registrant have been deemed to be affiliates. There were **99,727,422** **100,140,031** shares of common stock of the registrant outstanding, net of treasury shares, as of **February 13, 2023** **February 14, 2024**.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's **2023 2024** annual meeting of stockholders is incorporated by reference in Part III to the extent described therein.

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NOTE TO READERS

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND SUMMARY OF RISK FACTORS

This annual report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, the spread and impact of an infectious disease outbreak, changes to Medicare reimbursement and other healthcare laws and regulations from time to time, our business strategy, dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, the reader can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “targets,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause, and in some cases have previously caused, actual results to differ materially from those estimated by us include, but are not limited to, each of the factors discussed in Item 1A, *Risk Factors*, summarized in the list below, as well as uncertainties and factors, if any, discussed elsewhere in this Form 10-K, in our other SEC filings from time to time, or in materials incorporated therein by reference.

Risks Related to the Spin Off of Our Home Health and Hospice Business, Enhabit, Inc.

- To preserve the tax-free treatment of the Spin Off, we may be limited, for a period of time, in our ability to pursue certain equity issuances, strategic transactions, repurchases, or other transactions (including the certain dispositions of assets) that we may otherwise believe to be in the best interests of our stockholders or that might increase the value of our business.
- If the Spin Off were to fail to qualify as tax-free, including as a result of subsequent acquisitions of our stock or the stock of Enhabit, Inc., we could be subject to significant tax liabilities.

Reimbursement Risks

- Reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our inability to obtain and retain favorable arrangements with third-party payors, could decrease our revenues and adversely affect other operating results.
- Restrictive interpretations of the regulations governing the claims that are reimbursable by Medicare could decrease our revenues and adversely affect other operating results.
- **New or changing Medicare quality reporting requirements could adversely affect our operating costs or Medicare reimbursement.**
- Reimbursement claims are subject to various audits **from time to time** and such audits may lead to assertions that we have been overpaid or have submitted improper claims, and **such these** assertions may require us to incur additional costs to respond to requests for records and defend the validity of payments and **claims and** may ultimately require us to refund any amounts determined to have been overpaid.
- **Delays and other substantive** **Substantive** and procedural deficiencies in the administrative appeals process associated with denied Medicare reimbursement claims, including from various Medicare audit programs, could delay or reduce our reimbursement for services previously provided, including through recoupment from other claims due to us from Medicare.
- Efforts to reduce payments to healthcare providers undertaken by third-party payors **conveners**, and **referral sources conveners** could adversely affect our revenues or profitability.
- **Medicare quality reporting requirements could adversely affect our operating costs or Medicare reimbursement.**
- Changes in our payor mix or the acuity of our patients could reduce our revenues or profitability.

Other Regulatory Risks

- Changes in the rules and regulations of the healthcare industry at **either or both of** the federal, **and state** **or local** levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction (such as the re-basing of payment systems, the introduction of site neutral payments or case-mix weightings across post-acute settings, and other payment system reforms) could decrease revenues and increase the costs of complying with the rules and regulations.

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- **The ongoing evolution of the healthcare delivery system, including alternative payment models and value-based purchasing initiatives, could decrease our reimbursement rate or increase costs associated with our operations.**
 - Compliance with the extensive and frequently changing laws and regulations applicable to healthcare providers, including those related to **patient care, coding and billing**, data privacy and security, **consumer protection**, anti-trust, and employment practices, requires substantial time, effort and expense, and if we fail to comply, we could incur penalties and significant costs of investigating and defending asserted claims, whether meritorious or not, or be required to make significant changes to our operations.

- Our inability to maintain proper local, state and federal licensing, including compliance with the Medicare conditions of participation and provider enrollment requirements, such as the CMS vaccine mandate, could decrease our revenues.

Other Operational Risks

- Incidents affecting the proper operation, availability, or security of our or our vendors' or partners' information systems, including the patient information stored there, or business continuity could cause substantial losses and adversely affect our operations, and governmental mandates to increase use of electronic records and interoperability exacerbate that risk.
- Any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings, including disclosed and undisclosed *qui tam* suits, could be difficult to predict and could adversely affect our financial results or condition or our operations, and we could experience increased costs of defending and insuring against alleged professional liability and other claims.
- Our inability to successfully complete and integrate *de novo* developments, acquisitions, investments, and joint ventures consistent with our growth strategy, including realization of anticipated revenues, cost savings, productivity improvements arising from the related operations and avoidance of unanticipated difficulties, costs or liabilities that could arise from acquisitions or integrations could adversely affect our financial results or condition.
- Our inability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and potential union activity could increase staffing costs and adversely affect other financial and operating results.
- Competitive pressures in the healthcare industry, including from other providers large acute-care hospitals that may be participating in integrated delivery payment arrangements in which we do not participate, would typically serve as a referral source for us, and our response to those pressures could adversely affect our revenues or other financial results.
- Our inability to provide a consistently high quality of care, including as represented in metrics published by Medicare, could decrease our revenues.
- Our inability to maintain or develop relationships with patient referral sources, including our joint venture hospitals could decrease our revenues.
- Acute-care hospitals that participate in joint ventures with us may experience, and in the past some have experienced, operational or financial challenges that, in turn, affect our joint venture inpatient rehabilitation hospitals.
- A pandemic, epidemic, or other widespread outbreak of an infectious disease or other public health crisis, and governmental responses to those events, could decrease our patient volumes, pricing, and revenues, lead to staffing and supply shortages and associated cost increases, otherwise interrupt operations, or lead to increased litigation risk and, in the case of the COVID-19 pandemic, has already done so in many instances.
- Governmental actions A regional or global socio-political, weather, or other catastrophic event could severely disrupt our business, particularly in response to infectious disease outbreaks, areas such as limitations on elective procedures, vaccine mandates, shelter-in-place orders, new workplace regulations, facility closures Texas or Florida where we have a concentration of hospitals.
- Regulatory and quarantines experienced during the COVID-19 pandemic, could reduce volumes, lead other efforts to staffing shortages, increase staffing costs, promote a transition to a lower-carbon economy may result in significant operational and otherwise impair our ability to operate and provide care and in many instances already have done so, financial challenges for us.

Financial Risks

- General conditions in the economy and capital markets, including any disruption, instability, or uncertainty related to armed conflict or an act of terrorism, a governmental impasse over approval of the United States federal budget or an increase to the debt ceiling, rising interest rates, an international trade war, or a sovereign debt crisis could adversely affect our financial results or condition, including access to the capital markets and interest expense on new or existing debt.
- Our debt and the associated restrictive covenants could have negative consequences for our business and limit our ability to execute aspects of our business plan successfully.
- The price of our common stock could adversely affect our willingness and ability to repurchase shares.
- We may be unable or unwilling to continue to declare and pay dividends on our common stock.

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

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PART I

Item 1. Business

Overview of the Company

General

We are a national leader in post-acute healthcare services and the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated, revenues, and number of hospitals. We provide specialized rehabilitative treatment on an inpatient basis. We operate hospitals in 36 37 states and Puerto Rico, with concentrations in the eastern half of the United States Florida and Texas. As of December 31, 2022 December 31, 2023, we operate 153 161 inpatient rehabilitation hospitals. We are committed to delivering high-quality, cost-effective integrated patient care. For 2024, we were again named to Fortune's list of the World's Most Admired Companies.

Effective January 1, 2018, we changed our corporate name from HealthSouth Corporation to Encompass Health Corporation and the NYSE ticker symbol for our common stock from "HLS" to "EHC." Our principal executive offices are located at 9001 Liberty Parkway, Birmingham, Alabama 35242, and the telephone number of the principal executive offices is (205) 967-7116. Our website address is www.encompasshealth.com.

On July 1, 2022, we completed the previously announced separation of our home health and hospice business through the distribution (the "Spin Off") of all of the outstanding shares of common stock, par value \$0.01 per share, of Enhabit, Inc. ("Enhabit") to the stockholders of record of Encompass Health as of the close of business on June 24, 2022 (the "Record Date"). The Spin Off was effective at 12:01 a.m., Eastern Time, on July 1, 2022. The Spin Off was structured as a pro rata distribution of one share of Enhabit common stock for every two shares of Encompass Health common stock held of record as of the Record Date. No fractional shares were distributed. A cash payment was made in lieu of any fractional shares. As a result of the Spin Off, Enhabit is now an independent public company and its common stock is listed under the symbol "EHAB" on the New York Stock Exchange.

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

The table below provides selected operating and financial data.

		As of or for the Year Ended December 31,		
		2022	2021	2020
As of or for the Year Ended December 31,		As of or for the Year Ended December 31,		
2023		2023	2022	2021
Consolidated data:	Consolidated data:	(Actual Amounts)		
Inpatient rehabilitation:	Inpatient rehabilitation:			
Number of hospitals				
Number of hospitals				
Number of hospitals	Number of hospitals	153	145	137
Discharges	Discharges	211,116	197,639	181,897
Number of licensed beds	Number of licensed beds	10,356	9,924	9,505
Net operating revenues:	Net operating revenues:	(In Millions)		
Net operating revenues:				
Net operating revenues:				
Inpatient				
Inpatient				
Inpatient	Inpatient	\$4,251.6	\$3,918.0	\$3,496.1
Outpatient and other	Outpatient and other	97.0	96.9	70.2
Total	Total	\$4,348.6	\$4,014.9	\$3,566.3

Our inpatient rehabilitation hospitals offer specialized rehabilitative care across an array of diagnoses and deliver comprehensive, high-quality, cost-effective patient care services. As participants in the Medicare program, our hospitals must be licensed and certified and otherwise comply with various requirements that are discussed below in the "Sources of Revenues—Medicare Reimbursement" section. Substantially all (91%) of the patients we serve are admitted from acute-care hospitals following physician referrals for specific acute inpatient rehabilitative care. Most of those patients have experienced significant physical or cognitive disabilities or injuries due to medical conditions, such as strokes, hip fractures, and a variety of debilitating neurological conditions, that are generally nondiscretionary in nature and require rehabilitative healthcare services in a facility-based

setting. During the COVID-19 **Pandemic pandemic** (the "pandemic"), our hospitals treated thousands of patients with or recovering from the COVID-19 virus. Our focus on specialized rehabilitative care has meant that in many cases our hospitals have been ideal settings for treating the debilitating effects of the COVID-19 virus, such as significant muscle weakness, cognitive impairments, shortness of breath with activity, and malnutrition. Our teams of highly skilled nurses and physical, occupational, and speech therapists utilize proven technology and clinical protocols with the objective of restoring our patients'

physical and cognitive abilities. Patient care is provided by nursing and therapy staff as directed by physician orders while case managers monitor each patient's progress and provide documentation and oversight of patient status, achievement of goals, discharge planning, and functional outcomes. Our hospitals provide a comprehensive interdisciplinary clinical approach to treatment that leverages innovative technologies and advanced therapies and leads to superior outcomes.

Competitive Strengths

We believe we differentiate ourselves from our competitors based on, among other things, the quality of our clinical outcomes, our cost-effectiveness, our financial strength, and our extensive application of technology. We also believe our competitive strengths discussed below give us the ability to adapt and succeed in a healthcare industry facing regulatory uncertainty around attempts to improve outcomes and reduce costs.

- **People.** We believe our employees share a steadfast commitment to providing outstanding care to our patients. We undertake significant efforts to ensure our clinical and support staff receives the education and training necessary to provide the highest quality care in the most cost-effective manner. We **also have hospital staff trained for all patient acuity levels faced in the post-acute setting.** We embrace the Encompass Health Way, our core set of values developed through input from a broad cross section of our employees. The Encompass Health Way calls on each of our employees to set the standard, lead with empathy, do what's right, focus on the positive, and ensure we are stronger together. We believe our **award-winning** culture is essential to attracting and retaining talent. For further discussion of our human capital management and our award-winning culture, see the section titled "Human Capital Management" below.
- **Change Agility.** We have a demonstrated ability to adapt in the face of numerous and significant regulatory, legislative, and operating environment changes. We believe our consistent and disciplined operating model allows us to be nimble and responsive to change. Examples of regulatory and other changes through which we have successfully managed include:
 - The Centers for Medicare & Medicaid Services ("CMS") adopted a rule, effective beginning in 2007, that conditioned the reimbursement rate for an inpatient rehabilitation facility, or "IRF," on at least 60% of a facility's patients having at least one of 13 qualifying medical conditions.
 - The Patient Protection and Affordable Care Act (the "ACA") enacted in 2010 instituted several mandatory Medicare payment reforms, including reimbursement reductions for IRFs, and created the Center for Medicare and Medicaid Innovation ("CMMI") to develop, test, and promote innovative payment and delivery models.
 - The ACA created the IRF Quality Reporting Program. This program requires IRFs to report quality data, the elements of which are updated annually, and imposes a financial penalty for noncompliance.
 - The 2010 CMS reimbursement rule for IRFs implemented new IRF coverage requirements, or specifications as to what conditions must be met to qualify for reimbursement, that were effective for all Medicare discharges on or after January 1, 2010. Those IRF coverage requirements replaced coverage criteria that were in place for 25 years.
 - The Budget Control Act of 2011 implemented an automatic 2% reduction, or "sequestration," of Medicare program payments for all healthcare providers beginning in 2013.
 - The Improving Medicare Post-Acute Care Transformation Act of 2014 directed CMS to promulgate rules requiring the collection and reporting of standardized patient assessment data across post-acute care providers.
 - In 2019, CMS replaced the long-standing patient assessment measure, a component of Medicare reimbursement, with new assessment measures requiring significant training and operational changes.
 - In October 2022, CMS significantly changed the extensive admission and discharge interdisciplinary data elements required to be collected in connection with Medicare reimbursement claims.

Additionally, the pandemic posed a number of challenges in the operating environment. We demonstrated our ability to change and remain resilient by implementing protocols for the safety of our employees and our patients while managing supply chain constraints, specifically with personal protective equipment, in a timely and effective manner. The formation of our COVID Task Force allowed us to centralize decision-making while empowering **the our** hospitals to enact the protocols needed as the pandemic cycled through the country. Our therapy teams developed plans for COVID patients while maintaining our expected high-quality outcomes.

- **Strategic Relationships.** We have a long and successful history of building strategic relationships with major healthcare systems. More than a third of our inpatient rehabilitation hospitals currently operate as joint ventures with acute-care hospitals or systems. Joint ventures with market leading acute-care hospitals establish a solid foundation for providing integrated patient care that can improve the quality of outcomes and reduce the total cost of care.

Many patients continue to need nursing and therapy services after they leave the IRF setting to continue their recovery at home. Care collaboration between our hospitals and the home health agencies selected by our patients offers an excellent means to improve patient experience and outcomes and reduce the total cost of care across a post-acute episode.

The post-acute innovation tools we have developed, and will continue to develop, support our strategic relationship initiatives by enhancing the effective and efficient management of patients across multiple post-acute care settings and facilitating high-quality patient care, improved care coordination, and network provider performance and cost management.

Additionally, we have a strategic sponsorship with the American Heart Association/American Stroke Association on a nationwide basis to increase patient independence after a stroke and reduce stroke mortality through community outreach and information campaigns.

- **Clinical Expertise and High-Quality Outcomes.** We have extensive clinical experience from which we have developed standardized best practices and protocols. We believe these clinical best practices and protocols, particularly as leveraged with our well-trained clinicians and industry-leading technology, help ensure the delivery of consistently high-quality healthcare services, reduced inefficiencies, and improved performance across a spectrum of operational areas. Currently, we operate 131 137 hospitals that hold one or more Joint Commission Disease-Specific Care Certifications, such as stroke rehabilitation, hip fracture rehabilitation, brain injury rehabilitation, amputee rehabilitation, Parkinson's Disease rehabilitation, and spinal cord injury rehabilitation certification. Our hospitals account for 61% of all stroke rehabilitation accreditations, 97% of hip fracture rehabilitation accreditations, and 78% of all brain injury rehabilitation accreditations.
- **Cost Effectiveness.** Our scale, data-driven business practices, consistent and disciplined operating model, and culture help us provide healthcare services on a cost-effective basis. We leverage centralized administrative functions, use data analytics to identify trends and respond on a timely basis, and identify best practices and implement them across our platform of hospitals. Our *de novo* and bed addition strategies incorporate pre-fabrication construction technology to create efficiencies by reducing reliance on subcontractors, improving supply chain efficiencies, providing a consistent construction quality and realizing a speed-to-market benefit.
- **Financial Resources.** We have a proven track record of generating strong cash flows from operations that have allowed us to successfully pursue our growth strategy, manage our financial leverage, and make complementary shareholder distributions. We did not accept any pandemic relief funds under the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act") or any other program or legislation. As of December 31, 2022 December 31, 2023, we have a strong, well-capitalized balance sheet, including ownership of approximately 76% 78% of our hospital real estate, no significant debt maturities prior to 2025, in 2024, and ample availability under our revolving credit facility, which along with the cash flows generated from operations should, we believe, provide sufficient support for our business strategy.
- **Advanced Technology and Innovation.** We are focused on developing technology-enabled strategies to further improve our effectiveness at providing integrated healthcare. Our post-acute innovation strategy is based on using our clinical expertise, our large post-acute datasets, and our proven capabilities in enterprise-level electronic medical record technologies, data analytics, data integration, and predictive analytics to drive value-based performance across the healthcare continuum for our patients, our partners, and our payors. We believe our information systems and post-acute innovation solutions, in addition to improving patient care and operating efficiencies, allow us to collect, analyze, and share information on a timely basis making us an ideal partner for other healthcare providers in a coordinated care delivery environment. Our systems also emphasize interoperability with referral sources and other providers coordinating care. We have devoted substantial resources, effort and expertise to leveraging technology to create post-acute solutions that improve patient care and operating efficiencies.

Patients and Demographic Trends

Demographic trends, such as population aging, should continue to increase long-term demand for the services we provide. While we treat patients of all ages, most of our patients are 65 and older, and the number of Medicare enrollees is expected to grow approximately 3% per year for the foreseeable future, reaching approximately 73 million people over the age of 65 by 2030. More specifically, the average age of our Medicare patients is approximately 76, and the population group ranging in ages from 75 to 79 is expected to grow at approximately 5% per year through 2026. We believe the demand for the services we provide will continue to increase as the U.S. population ages. We believe these factors align with our strengths in, and focus on, inpatient rehabilitation services.

Despite the growing demand for inpatient rehabilitation services, the number of inpatient rehabilitation facilities has remained relatively stable — decreasing modestly increasing just 0.17% from 1,182 1,179 in 2015 2010 to 1,180 1,181 in 2021, 2022. This supply-demand imbalance is partly responsible for the relatively low conversion rate of inpatient rehabilitation eligible patients. We believe the percentage of patients who are discharged from acute-care hospitals with one or more of 13 specified medical conditions that CMS ties to IRF eligibility and subsequently admitted to an IRF is approximately 13% based on Medicare fee-for-service data, which is the only publicly available data on the subject. To respond to the strong demand for our services, we continue to develop our current markets through bed additions and to construct or acquire hospitals in new markets. Since 2012, we have opened or acquired 53 61 new hospitals and increased the number of licensed beds we operate by approximately 56% 62%, or 3,700 4,122 beds.

Strategy and 2023 2024 Strategic Priorities

Our overall strategy is to expand our network of inpatient rehabilitation hospitals, add capacity to existing hospitals, further strengthen our relationships with healthcare systems, provider networks, and payors in order to connect patient care across the healthcare continuum, and to deliver superior patient outcomes in a cost-effective manner. We believe this strategy, along with our demonstrated ability to adapt to changes in healthcare, positions us for success in the evolving healthcare delivery system. In pursuit of our strategy, we established the following priorities for 2023, 2024.

- **Growth.** We target the addition of 6 to 10 new inpatient rehabilitation hospitals and 80 to 120 beds to existing hospitals per year. In 2021, 2023, we opened 8 new hospitals (350 (395 beds total) and added 117 46 beds to existing hospitals. In 2022, we opened 9 new hospitals (410 beds total) and added 87 beds to existing hospitals. In 2023, 2024, we plan to open 8 6 hospitals (approximately 395 280 beds) and add 80 to 100 approximately 150 beds to existing hospitals, hospitals (inclusive of a 40-bed freestanding satellite hospital). We also believe we will continue to have organic growth opportunities based on our track record of growth, planned bed additions at a number of existing hospitals, and the maturation of newly opened locations.
- **Operational Initiatives.** Our priorities include operational initiatives that build on momentum from recent years. We believe our care coordination efforts have and will continue to contribute to reductions in fewer discharges to skilled nursing facilities, higher more discharges to community, and improved patient experience. Our care coordination program is the integrative approach to a patient's care that includes coordination with physicians, acute-care hospitals, and other post-acute providers to ensure the best overall care is provided to the patient.

We will continue to demonstrate our value proposition to Medicare Advantage payors by providing superior patient outcomes, including higher discharge to community rates and lower lengths of stay, compared to alternative sites of care. The Medicare Advantage enrollment growth rate is greater than that of traditional Medicare fee-for-service,

and our payor mix has shifted accordingly. Medicare Advantage payors represented 8.4% of our net operating revenues in 2017 and 15.1% 16.2% in 2022, 2023. We believe our outcomes and quality of care data have helped drive a significant improvement in the payments we receive from Medicare Advantage payors. For example, reimbursement based on the type of patient/treatment required, commonly referred to as the case mix group basis ("CMG"), is typically greater than reimbursement on a per-diem rate basis, and we increased the percentage of our Medicare Advantage revenue paid based on CMG from approximately 58% in 2017 to approximately 88% 90% in 2022, 2023.

Given the significant number of stroke patients in need of post-acute care, we will continue working to build our stroke market share through our strategic sponsorship of the American Heart Association/American Stroke Association, the IRF treatment recommendations published by the Department of Veterans' Affairs and the Journal of the American Medical Association, our care coordination, and our hospitals' participation in The Joint Commission's Disease-Specific Care Certification Program. As of December 31, 2022 December 31, 2023, 130 136 of our 153 161 hospitals held stroke-specific certifications that required us to demonstrate effective use of evidence-based clinical practice guidelines to manage and optimize stroke care and an organized approach to performance measurement and evaluation of clinical outcomes. In

2022, 2023, approximately 6% 7% of patients recovering from a stroke in the U.S. were treated at our hospitals, accounting for approximately 19% 18% of our overall patient mix.

We will continue to develop and implement post-acute solutions that allow us to apply our clinical expertise, large post-acute datasets, electronic medical record technologies, and strategic partnerships to drive improved patient outcomes and lower the cost of care across the entire post-acute episode, such as our reducing acute-care transfer model updated in 2022 and our fall prevention model rolled out to hospitals implemented in late 2021. 2022.

We will seek to expand efforts and initiatives to recruit and retain a qualified clinical workforce. In 2022, we implemented a centralized nurse recruiting model to create recruiting efficiencies, shorten the hiring process, and improve the candidate experience.

We will continue to install in our hospitals a hemodialysis system with which we are now able to provide inpatient dialysis to our patients without relying on third-parties. Historically, our patients have received dialysis from third-party vendors, either onsite or offsite as available, often resulting in interruptions to their therapy schedules. With this new onsite hemodialysis system, we can provide our patients dialysis without interrupting therapy or requiring patient travel, which lowers our cost of treatment and improves patient satisfaction. As of December 31, 2022 December 31, 2023, we had installed these systems in 41 83 of our hospitals.

- Capital Structure.** We seek to maintain balance sheet flexibility, consider opportunistic refinancings and augment returns from investments in operations with shareholder distributions via common stock dividends and repurchases of our common stock. Our debt portfolio is concentrated in long-dated fixed-rate debt. Our free cash flow is the primary source of funding for the considerable investment in our *de novo* and bed addition growth plans. As an additional source of liquidity, we can access our \$1 billion revolving credit facility of which \$912 million \$968 million was available for borrowing as of December 31, 2022 December 31, 2023. Our strong balance sheet as well as our leverage and liquidity profiles mitigate exposure to interest rate volatility and near-term refinancing risks.

For additional discussion of our strategic priorities as well as our progress toward our priorities in 2022, 2023, including operating results, growth, and shareholder distributions, and our business outlook, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Executive Overview," "Results of Operations," and "Liquidity and Capital Resources."

Human Capital Management

Overview of Our Employees. As of December 31, 2022 December 31, 2023, we employed approximately 35,000 38,000 individuals. In the healthcare services sector, many professionals, such as nurses, desire flexible work arrangements. Accordingly, part-time and per diem employees represent a large percentage of our employee population. Except for 50 47 employees at one hospital (approximately 15% 14.5% of that hospital's workforce), none of our employees are represented by a labor union as of December 31, 2022 December 31, 2023. The chart below includes a breakdown of our employees.

Type	Employees
Total Employees	34,519 37,761
Full-time Employees	20,839 22,356
Part-time Employees	2,559 2,952
Pool/Per-diem Employees	11,121 12,453

In some markets, the shortage of clinical personnel is a significant operating issue facing healthcare providers. Shortages of nurses and other clinical personnel, including therapists, may, from time to time, require us to increase use of more costly temporary personnel, which we refer to as "contract labor," and other types of premium pay programs. In order to recruit and retain those clinical employees, we maintain a total rewards program that we view as a combination of the tangible components of pay and benefits with the intangible components of a culture that encourages learning, development, and a supportive work environment. We believe our outstanding employee engagement scores, discussed below, evidence that our human capital management efforts have been successful. We also believe our recognition as one of Modern Healthcare's "Best Places to Work" is further evidence of that success. We focus on the following strategic human capital imperatives:

- Maintaining competitive compensation and benefit programs that reward and recognize employee performance;
- Fostering a strong culture that values diversity, equity, and inclusion; and
- Emphasizing employee development and engagement to attract talent and reduce turnover.

Compensation and Benefits. Maintaining competitive compensation and benefit programs that reward and recognize employee performance furthers our goal to attract, retain, and motivate employees who will help us deliver high-quality patient care. We are also committed to providing comprehensive benefit options that will allow our employees and their families to live healthier and more secure lives. In our compensation and benefit programs:

- we provide employee wages that are competitive and consistent with employee positions, skill levels, experience, knowledge and geographic location.
- we engage nationally recognized outside compensation and benefits consulting firms to independently evaluate the effectiveness of our compensation and benefit programs, to provide benchmarking against our peers within the industry and by specific market, and to recommend design elements for those programs.
- we base annual increases and incentive compensation on merit, which is communicated to employees through our talent management process as part of our annual review procedures.
- all full-time and most part-time employees are eligible for health insurance, paid and unpaid leaves, a retirement plan, a wellness program, telemedicine, tuition reimbursement, an employee assistance program, and life and disability/accident coverage.
- we provide an employer match on retirement plan contributions.
- we also offer a wide variety of voluntary benefits that allow employees to select the options that meet their needs, including pre-paid legal services, dental insurance, vision insurance, hospital indemnity insurance, accident insurance, critical illness insurance, supplemental life insurance, disability insurance, health savings accounts, flexible spending accounts, auto/home insurance, and identity theft insurance.
- we have various **year-long, quarterly, and** short-term incentive plans for field leadership, most marketing/sales employees, and executives.
- we make annual grants of restricted stock to employees at various levels, including non-executive management, to foster a strong sense of ownership and align the interests of management with those of our stockholders.

Diversity, Equity, and Inclusion. We believe fostering a strong culture that values diversity, equity, and inclusion, or DE&I, allows us to recruit and retain diverse employees and provide high-quality care to our diverse patients. We maintain a DE&I program that is overseen by a DE&I **department staff at our corporate office** and supported by **Hospital Diversity Committees, hospital diversity committees.** Together, they design and execute initiatives that strengthen relationships, improve communication, and increase understanding, so we can better serve each other, our patients, and our communities. We believe our DE&I program furthers our efforts to provide culturally competent care. The key components of our DE&I program are:

- **Workforce Attraction and Development Development.** We seek to build our workforce to represent and reflect the communities we serve, which allows us to provide culturally competent care. In addition, we are committed to ensuring that all our employees are trained on DE&I topics as a foundational element of our employee and leadership development curriculum. Our other DE&I initiatives include scholastic partnerships with historically black colleges, recruitment tools to help identify and attract diverse talent, a website career tool to help veterans find jobs that closely align with their specific skills, and ongoing policy and procedure reviews to incorporate guidance and practices that align with our DE&I mission. **Our Developing Future CEOs, or DFCEO, program provides training and mentorship for emerging leaders. Since its inception, 42 individuals have completed the program and been placed as hospital CEOs. Of those placed, 24% have been people of color, and 38% have been women. In 2023, the number of people of color in hospital leadership roles increased 11.2%.**
- **Community Partnership – Partnership.** We establish and maintain relationships with local organizations to improve health outcomes in our communities. An example of this type of partnership is our arrangement with Holy Family Cristo Rey Catholic High School in Birmingham. This partnership allows adolescents from disadvantaged groups to gain tangible work experience in our corporate office while earning funds for school tuition. In **2022, 2023,** we sponsored **six seven** students. Our other community initiatives include an annual report that provides information on our DE&I initiatives to people outside the **company. Company.** We also have memberships and active involvement in local chapters of the National Association of Health Service Executives, an organization that promotes the advancement and development of minority healthcare leaders. We provide training and mentorship to the next generation of healthcare leaders with the goal of helping them develop the skills and passion for inpatient rehabilitation. **Many of our hospitals have clinical rotations with local universities and regularly attend school career fairs.** In addition, we are active participants in a regional working group

of Alabama-based businesses convened to discuss and share DE&I best practices.

We also sponsored the 2023 Magic City Classic, the largest historically black college and university football game in the country, in order to promote the Encompass Health brand and career opportunities to the in-person attendees, estimated at approximately 70,000, as well as visitors to the event's website.

- **Supplier Diversity – Diversity.** We maintain a supplier base program that offers contracting opportunities with manufacturers, distributors and service providers that are certified as minority-owned, veteran-owned and small disadvantage-owned businesses, and we continue to research and identify additional diverse supplier certifying organizations.

We have undertaken other initiatives to emphasize the importance of DE&I in the workplace and its role in providing the best quality patient care. For example, we participate in the CEO Action for Diversity and Inclusion Pledge. This coalition of chief executive officers is dedicated to advancing DE&I in the workplace. Every three to **five four** years, we engage a third-party consulting agency to help us evaluate our program and explore possible enhancements. We then provide the feedback to our board of directors. We have published a series of video conversations **and written communications** with various employees and members of executive management to highlight personal experience to promote DE&I throughout the organization. In addition, the DE&I department works closely with the quality, clinical and case management departments to improve health equity

(including through development of our social determinants of health risk assessment for use by patient case managers) and ensure our interprofessional health care teams have the resources they need to provide culturally competent care.

The success of our DE&I program is evidenced by our annual employee engagement survey results. We ask employees to rate five separate statements related to our DE&I program, including "there is an equal opportunity for people to have a successful career at the Company," "diversity (individual differences, perspectives, and experience) is embraced as a strength by this Company," "our Company equips me/staff with the resources to deliver culturally competent care to our patients," and "my immediate manager supports diversity, equity, and inclusion in the workplace." All five of those statements rated with a level of agreement at or above 80% and above the healthcare benchmark provided by the surveying vendor.

Employee Development and Engagement. We believe promoting Our employee development and engagement furthers further our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment where staffing shortages are not uncommon. We track and measure therapist and nurse turnover for our full-time employees (excluding those at new stores and most at the corporate office) on a quarterly and annual basis for significant trends and outliers, but we do not believe comparisons of our data to external turnover benchmarks are material given a valid representation, as they do not account for the variations in survey data across markets, hospital sizes, practice settings, and practice specialties. The table below shows those turnover rates for 2022 2023 and 2021 2022.

2022		2021			
2023				2023	2022
Therapist	Therapist	9.1%	7.9%	Therapist	7.8%
Nurse	Nurse	28.1%	27.4%	Nurse	28.1%

We support the long-term career aspirations of our employees through education and personal development.

- Education Opportunities.** We offer our nurses an opportunity to advance their academic degrees at a reduced tuition rate of 20% 25% to 50% of the total program cost. To date, approximately 1,521 1,167 of our nurses have taken advantage of this opportunity. Additionally, our full-time inpatient nursing and therapy staff have unlimited access to online education and training to ensure continuing education units are available at no cost.
- Tuition Reimbursement/Scholarship Programs.** Employees also have the opportunity to advance their education through our tuition reimbursement and scholarship programs. We reimbursed over \$1.2 million \$1.1 million in tuition and paid over \$2.8 million toward employees' student loan debt in 2022, 2023.
- Academic Endowments.** We endowed five scholarships for deserving students from underrepresented groups pursuing degrees in nursing and allied health fields.
- Therapy Grants.** We fund research projects to investigate the impact and effectiveness of therapy in the inpatient rehabilitation setting. In recent years, we have funded studies and research on topics ranging from caregiver education to the effectiveness of occupation-centered interventions. The program is open to qualified candidates, including employees.
- Other Employee Development Programs:**
 - career ladders that offer paths to develop, demonstrate, and be rewarded for expanded responsibility in nursing, therapy and case management;
 - formal coaching online development library that provides access to a wide range of readily available internal and external content on many topics important for success in current or desired jobs;
 - developing future leaders program that develops nurses and therapists for supervisory positions and develops nurse and therapy supervisors for higher level positions;
 - leadership precepting that provides new leaders 6-12 months of structured mentoring from experienced, high-performing peers;
 - leadership coaching that provides six months of executive coaching to high performing leaders;
 - developing future chief nursing officers program that provides 12-18 months of intensive on-the-job experience to develop participants for future chief nursing officer job openings; and
 - developing future chief executive officers DFCEO program that provides 18-24 months of intensive on-the-job experience to develop participants for future hospital chief executive officer openings.

To further aid in employee development, we have invested money in best-in-class technology to offer on-demand learning and development programs, and leadership coaching programs. Another important aspect of employee development is succession planning. We Additionally, we annually review our talent to identify potential successors for key positions and to identify candidates for accelerated development based on their performance and potential. The annual process includes an assessment of each employee's employee promotability based on a set of leadership core competencies defined as part of the company's Company's talent strategy.

We believe employee Employee engagement is another important a key driver of employee retention. We As such, we conduct an annual employee engagement survey open to all of our employees, helping us to gauge employee satisfaction with and commitment to their jobs. In 2022, 80% 2023, 82% of our employees participated in the survey, which measures perceptions based on responses to 38 questions. questions from the categories listed below. The overall Company engagement score was 83% favorable,

representing a 2% increase over 2022. In 2022, 2023, we scored above again surpassed the healthcare benchmarks as a company in each of the following categories on the survey: 10 categories:

- ethics and compliance
 - culture of safety
 - diversity, equity, and inclusion
 - work environment
 - leadership
- teamwork
 - engagement
 - culture of trust
 - individual value
 - communication

Furthermore, some hospitals participate in a 5-item pulse engagement survey mid-year to gain feedback on their engagement action plans. Pulse surveys allow us to target and achieve improved engagement scores at the hospital level.

Competition

The inpatient rehabilitation industry, outside of our leading position, is highly fragmented. Our inpatient rehabilitation hospitals compete primarily with rehabilitation units, most of which are within acute-care hospitals, in the markets we serve. An acute-care hospital operating its own unit, particularly one owned or operated by a large public company or not-for-profit that has a dominant position in the local market, can be a formidable competitor because 91% of our patients come from acute-care hospitals. There are several privately held companies offering post-acute rehabilitation services that compete with us primarily in select geographic markets. In addition, there is a public company that is primarily focused on other post-acute care services but also operates 31 freestanding 33 inpatient rehabilitation hospitals. Other providers of post-acute care services compete for some rehabilitation patients. For example, nursing homes may market themselves as offering certain rehabilitation services, particularly to patients not in need of intensive rehabilitation therapy, even though those nursing homes are not required to offer the same level of care, and are not licensed, as hospitals. The primary competitive factors in any given market include the quality of care and service provided, the treatment outcomes achieved, the relationship and reputation with managed care and other private payors and the acute-care hospitals, physicians, or other referral sources in the market, and the regulatory barriers to entry in certificate of need states. The ability to work as part of an integrated delivery payment model with other providers, including the ability to deliver quality patient outcomes and cost-effective care, could become an increasingly important factor in competition if a significant number of people in a market are participants in one or more of these models. See the "Regulation—Relationships with Physicians and Other Providers" and "Regulation—Certificates of Need" sections below for further discussion of some of these factors. For a list of our inpatient rehabilitation markets by state, see the table in Item 2, Properties.

Regulatory and Reimbursement Challenges

Healthcare is a highly regulated industry facing many well-publicized regulatory and reimbursement challenges driven by escalating costs and the pursuit of better quality of care. The Medicare reimbursement system for inpatient rehabilitation has changed significantly over the years. The future of many aspects of healthcare regulation remains uncertain. Any regulatory or legislative changes impacting the healthcare industry ultimately may affect, among other things, reimbursement of healthcare providers, consumers' access to coverage of health services, including among non-Medicare aged population segments within commercial insurance markets and Medicaid enrollees, and competition among providers. Changes may also affect the delivery of healthcare services to patients by providers and the regulatory compliance obligations associated with those services.

Successful healthcare providers are those able to adapt to changes in the regulatory and operating environments, build strategic relationships across the healthcare continuum, and consistently provide high-quality, cost-effective care. We believe

we have the necessary capabilities — capabilities—change agility, strategic relationships, quality of patient outcomes, cost effectiveness, and ability to capitalize on growth opportunities — opportunities—to adapt to and succeed in a dynamic, highly regulated industry, and we have a proven track record of doing so. For more in-depth discussion of the primary challenges and risks related to our business, particularly the changes in Medicare reimbursement, increased compliance and enforcement burdens, and changes to our operating environment resulting from healthcare reform, see "Sources of Revenues—Medicare Reimbursement" and "Regulation" below in this section as well as Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview—Key Challenges."

Sources of Revenues

We receive payment for patient care services from the federal government (primarily under the Medicare program), managed care plans and private insurers, and, to a considerably lesser degree, state governments (under their respective Medicaid or similar programs) and directly from patients. Revenues and receivables from Medicare are significant to our operations. The federal and state governments establish payment rates as described in more detail below. We negotiate the payment rates with non-governmental group purchasers of healthcare services that are included in "Managed care" in the tables below, including private insurance companies, employers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), and other managed care plans. Patients are generally not responsible for the difference between established gross charges and amounts reimbursed for such services under Medicare, Medicaid, and other private insurance plans, HMOs, or PPOs but are responsible to the extent of any exclusions, deductibles, copayments, or coinsurance features of their coverage. Medicare, through its Medicare Advantage program, offers Medicare-eligible individuals an opportunity to participate in managed care plans. Revenues from Medicare and Medicare Advantage represent approximately 80% 81% of total revenues.

The sources and relative mix of our revenues for the last three years are:

For the Year Ended December 31,	For the Year Ended December 31,
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		2022	2021	2020		2023		2022		2021	
Medicare	Medicare	65.3 %	64.4 %	66.7 %	Medicare	65.0 %		65.3 %		64.4 %	
Medicare Advantage	Medicare Advantage	15.1 %	15.2 %	15.3 %	Medicare Advantage	16.2 %		15.1 %		15.2 %	
Managed care	Managed care	11.6 %	12.1 %	10.4 %	Managed care	11.1 %		11.6 %		12.1 %	
Medicaid	Medicaid	4.2 %	4.1 %	3.9 %	Medicaid	4.0 %		4.2 %		4.1 %	
Other third-party payors	Other third-party payors	0.9 %	1.1 %	1.2 %	Other third-party payors	0.9 %		0.9 %		1.1 %	
Workers' compensation	Workers' compensation	0.6 %	0.6 %	0.6 %	Workers' compensation	0.5 %		0.6 %		0.6 %	
Patients	Patients	0.4 %	0.5 %	0.5 %	Patients	0.3 %		0.4 %		0.5 %	
Other income	Other income	1.9 %	2.0 %	1.4 %	Other income	2.0 %		1.9 %		2.0 %	
Total	Total	100.0 %	100.0 %	100.0 %	Total	100.0 %		100.0 %		100.0 %	

Medicare Reimbursement

Medicare is a federal program that provides hospital and medical insurance benefits to persons aged 65 and over, qualified disabled persons, and persons with end-stage renal disease. Medicare, through statutes and regulations, establishes reimbursement methodologies and rates for various types of healthcare providers, facilities, and services. Each year, the Medicare Payment Advisory Commission ("MedPAC"), an independent agency that advises the United States Congress on issues affecting Medicare, makes payment policy recommendations to Congress for a variety of Medicare payment systems including, among others, the inpatient rehabilitation facility prospective payment system (the "IRF-PPS"). MedPAC also makes recommendations on regulatory actions to CMS. Neither Congress nor CMS is obligated to adopt MedPAC recommendations, and, based on outcomes in previous years, there can be no assurance either will adopt MedPAC's recommendations in a given year. However, MedPAC's recommendations have, and could in the future, become the basis for subsequent legislative or, as discussed below, regulatory action.

The Medicare statutes are subject to change from time to time. With respect to Medicare reimbursement, the ACA provides provided for specific reductions to healthcare providers' annual market basket updates and other payment policy changes. In August 2011, President Obama signed into law the Budget Control Act of 2011 providing for an automatic 2% reduction, or "sequestration," of Medicare program payments for all healthcare providers. Sequestration took effect April 1, 2013 and, as a result of subsequent legislation, will continue through mid-fiscal year 2032 unless Congress and the President take further action. In response to the public health emergency associated with the pandemic, Congress and the President suspended sequestration through March 31, 2022. Additional Medicare payment reductions are also possible under the Statutory Pay-As-

You-Go Pay-As-You-Go Act of 2010 ("Statutory PAYGO"). Statutory PAYGO requires, among other things, that mandatory spending and revenue legislation not increase the federal budget deficit over a 5- or 10-year period. If the Office of Management and Budget (the "OMB") finds there is a deficit in the federal budget, Statutory PAYGO requires OMB to order sequestration of Medicare. The Congressional Budget Office estimated that the American Rescue Plan Act of 2021 would result in budget deficits necessitating a 4% reduction in Medicare program payments under the Statutory PAYGO, but subsequent legislation enacted by Congress suspended until 2025 the Statutory PAYGO reductions that would have gone into effect. In the future, concerns about the federal deficit, national debt levels and the solvency of the Medicare trust fund could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both. Healthcare will almost certainly be the subject of significant regulatory and legislative changes regardless of the party in control of the executive and legislative branches of state and federal governments.

From time to time, Medicare regulations, including reimbursement methodologies and rates, can be further modified by CMS. Subject to its statutory authority, CMS may make some prospective payment system changes. For example, CMS changed the IRF-PPS, effective October 1, 2019, to replace the FIM™ assessment instrument with new patient assessment measures, which we refer to as "Section GG functional measures" or "Section GG" based on the designation CMS assigned to them. Section GG affects patients' classification into case-mix groupings, relative weights, and length-of-stay values under the IRF-PPS, which in turn affect our reimbursement amounts. In some instances, CMS's modifications can have a substantial impact on healthcare providers. In accordance with Medicare laws and statutes, CMS makes annual adjustments to Medicare payment rates in prospective payment systems, including the IRF-PPS, by what is commonly known as a "market basket update." CMS may take other regulatory action affecting rates as well. For example, under the ACA, CMS requires IRFs to submit data on certain quality of care measures for the IRF quality reporting program. A facility's failure to submit the required quality data results in a two percentage point reduction to that facility's annual market basket increase factor for payments made for discharges in a subsequent Medicare fiscal year. IRFs began submitting quality data to CMS in October 2012. All of our inpatient rehabilitation hospitals have met the reporting deadlines to date resulting in no corresponding reimbursement reductions.

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

Although reductions or changes in reimbursement from governmental or third-party payors and regulatory changes affecting our business represent one of the most significant challenges to our business, our operations are also affected by other rules and regulations that indirectly affect reimbursement for our services, such as data coding rules and patient coverage rules and determinations. For example, Medicare providers like us can be negatively affected by the adoption of coverage policies, either at the national or local level, that determine whether an item or service is covered and under what clinical circumstances it is considered to be reasonable and necessary. Current CMS coverage rules require inpatient rehabilitation services to be ordered by a physician and be coordinated by an interdisciplinary team and the admission to the IRF must be reviewed and

approved by a specialized rehabilitation physician. The interdisciplinary team must meet weekly to review patient status and make any needed adjustments to the individualized plan of care. Qualified personnel must provide the rehabilitation nursing, physical therapy, occupational therapy, speech-language pathology, social services, psychological services, and prosthetic and orthotic services that may be needed. Medicare contractors processing claims for CMS make coverage determinations regarding medical necessity that can represent novel or restrictive interpretations of the CMS coverage rules. Those interpretations are not made through a notice and comment review process. We cannot predict how future CMS coverage rule interpretations or any new local coverage determinations will affect us. However, more restrictive coverage interpretations can limit or delay our reimbursement for services provided to potentially large pools of patients with similar medical conditions.

In the ordinary course, Medicare reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals, are subject to audit from time to time by governmental payors and their agents, such as the Medicare Administrative Contractors ("MACs") that act as fiscal intermediaries for all Medicare billings, as well as the United States Department of Health and Human Services Office of Inspector General (the "HHS-OIG"), CMS, and state Medicaid programs. In addition to those audits conducted by existing MACs, CMS has developed and instituted various Medicare audit programs under which CMS contracts with private companies to conduct claims and medical record audits. Some contractors are paid a percentage of the overpayments recovered. The Recovery Audit Contractors ("RACs") conduct payment reviews of claims, which can examine coding, overall billing accuracy, and medical necessity. When conducting an audit, the RACs receive claims data directly from MACs on a monthly or quarterly basis.

CMS has also established Unified Program Integrity Contractors ("UPICs"), previously known as Zone Program Integrity Contractors, to perform fraud, waste, and abuse detection, deterrence and prevention activities for Medicare and Medicaid claims. Like the RACs, the UPICs conduct audits and have the ability to refer matters to the HHS-OIG or the United States Department of Justice ("DOJ"). Unlike RACs, however, UPICs do not receive a specific financial incentive based on the amount of the payment errors they identify.

As a matter of course, we undertake significant efforts through training, education, and documentation to ensure compliance with coding and medical necessity coverage rules. Despite our efforts to ensure accurate coding and assessment of patients, audits have in the past led and may in the future lead to assertions that we have been underpaid or overpaid by Medicare or that we have submitted improper claims in some instances. Audits may also require us to incur additional costs to respond to requests for records and defend the validity of payments and claims, and ultimately require us to refund any amounts determined to have been overpaid. We cannot predict when or how these audit programs will affect us. Any denial of a claim for payment, either as a result of an audit or ordinary course payment review by the MAC, is subject to an appeals process that can take years to complete. For additional discussion of these audits and the risks associated with them, see Item 1A, *Risk Factors*, "Reimbursement Risks" and "Other Regulatory Risks" and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Executive Overview—Key Challenges."

In response to the public health emergency associated with the pandemic, Congress and CMS adopted several statutory and regulatory measures intended to provide relief to healthcare providers in order to ensure patients would continue to have adequate access to care. On March 27, 2020, President Trump signed into law the CARES Act, which authorized the cash distribution of pandemic relief funds from the United States Department of Health and Human Services ("HHS") to healthcare providers. The Consolidated Appropriations Act, 2021 (the "2021 Budget Act"), signed into law on December 27, 2020, provided for additional provider relief funds. We did not accept any provider relief funds.

As noted above, our inpatient rehabilitation hospitals receive a fixed payment reimbursement amount per discharge under the IRF-PPS based on the patient's rehabilitation impairment category and other characteristics and conditions identified by the attending clinicians. In order to qualify for reimbursement under the IRF-PPS, our hospitals must comply with various Medicare rules and regulations including documentation and coverage requirements, or specifications as to what conditions must be met to qualify for reimbursement. These requirements relate to, among other things, pre-admission screening, and individual treatment planning that all delineate the role of physicians in ordering and overseeing patient care. For example, a physician physicians must approve admission of each patient admissions and in doing so determine that the treatment of the patient patients in an IRF setting is reasonable and necessary. A rehabilitation physician must then conduct face-to-face visits with the patients at least three days per week throughout the IRF stay. Also, patients admitted to IRFs must be able to tolerate a minimum of three hours of therapy per day for five days per week, and IRFs must have a registered nurse available 24 hours, each day of the week.

In addition, to qualify as an IRF under Medicare rules, a facility must be primarily focused on treating patients with one of 13 specified medical conditions that typically require intensive therapy and supervision, such as stroke, brain injury, hip fracture, certain neurological conditions, and spinal cord injury. Specifically, at least 60% of a facility's patients must have a diagnosis or qualifying comorbidity from at least one of these 13 conditions, which requirement is known as the "60% Rule." Also, each patient admitted to if an IRF must does not demonstrate compliance with the 60% Rule by either the presumptive method or through a review of medical records, then its classification as an IRF may be able terminated by CMS causing the facility to tolerate a minimum be paid under the acute-care payment system which would result in reduced total reimbursement per patient. If some of three hours of therapy per day for five days per week our hospitals fail to demonstrate compliance with the 60% Rule and must have a registered nurse available 24 hours, each day of the week. CMS re-classifies them as acute-care hospitals, our revenue and profitability may be materially and adversely affected.

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

On July 29, 2021 July 27, 2022, CMS released its notice of final rulemaking for fiscal year 2022 2023 IRF-PPS (the "2022 2023 IRF Rule"). The 2022 2023 IRF Rule implemented a net 1.9% 3.9% market basket increase (market basket update of 2.6% 4.2% reduced by a productivity adjustment of 0.7% 0.3%) effective for discharges between October 1, 2021 October 1, 2022 and September 30, 2022 September 30, 2023. The productivity adjustment equals the trailing 10-year average of changes in annual economy-wide private nonfarm business multi-factor productivity. The 2022 2023 IRF Rule also included changes that impacted our hospital-by-hospital base rate for Medicare reimbursement. Such changes included, but were not limited to, revisions to the wage index and labor-related share values, updates to outlier payments and updates to the case-mix group relative weights and average lengths of stay values. The 2022 IRF Rule also added one new quality reporting measure and updated the denominator of another measure.

On July 27, 2022 July 27, 2023, CMS released its notice of final rulemaking for fiscal year 2023 2024 IRF-PPS (the "2023 2024 IRF Rule"). The 2023 2024 IRF Rule implements a net 3.9% 3.4% market basket increase (market basket update of 4.2% 3.6% reduced by a productivity adjustment of 0.3% 0.2%) effective for discharges between October 1, 2022 October 1, 2023 and September 30, 2023 September 30, 2024. The 2023 2024 IRF Rule also includes changes that impact our hospital-by-hospital base rate for Medicare reimbursement. Such changes include, but are not limited to, revisions to the wage index and labor-related share values, updates to outlier payments and updates to the case-mix group relative weights and average lengths of stay values. Based on our analysis, which utilizes, among other things, the acuity of our patients annualized over the twelve-

month prior period ended **June 30, 2022** **June 30, 2023**, our experience with outlier payments over that same time frame, and other factors, we believe the **2023 2024** IRF Rule will result in a net increase to our Medicare payment rates of approximately **4.0%** **3.3%** effective **October 1, 2022** **October 1, 2023**.

The proposed rulemaking for fiscal year 2023 for the IRF-PPS included a request for comment on a potential change that could be included in future rulemaking. Based on a recent HHS-OIG report, CMS is considering whether to modify the IRF "transfer" payment policy to reduce reimbursement for early discharges to home health, similar to how early discharges to acute-care hospitals, skilled nursing facilities, long-term acute-care hospitals, or another IRF, are currently treated under the IRF-PPS. HHS-OIG estimated that its recommended change to the policy could reduce total IRF industry reimbursements by approximately 6% based on 2017 and 2018 data. In the 2023 IRF Rule, CMS acknowledged industry comments on the policy and noted those comments would be taken under advisement for future rulemaking.

Unlike our inpatient services, our outpatient services are primarily reimbursed under the Medicare Part B physician fee schedule. On **November 1, 2022** **November 2, 2023**, CMS released its final notice of rulemaking for the payment policies under the physician fee schedule and other revisions to Part B policies for calendar year **2023**, **2024**. The updates to the fee schedule are not expected to be material to us.

For additional discussion of the Medicare payment rules and other regulatory and legislative initiatives affecting Medicare reimbursement that could impact our businesses, see Item 1A, *Risk Factors*, "**Reimbursement Risks**" and "**Other Regulatory Risks**" and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Executive Overview—Key Challenges."

Medicare Advantage, Managed Care and Other Discount Plans

We negotiate payment rates with certain large group purchasers of healthcare services, including Medicare Advantage plans, managed care plans, private insurance companies, and third-party administrators. Managed care contracts typically have terms between one and three years, although we have a number of managed care contracts that automatically renew each year (with pre-defined rate increases) unless a party elects to terminate the contract. In **2022**, **2023**, typical rate increases for our contracts ranged from 2-4%. We cannot provide any assurance we will continue to receive increases in the future. Our managed care staff focuses on establishing and re-negotiating contracts that provide equitable reimbursement for the services provided.

As the percentage of Medicare-eligible beneficiaries choosing Medicare Advantage over traditional Medicare has grown, we have seen the percentage of our revenue derived from Medicare Advantage payors grow. In **2022**, **2023**, approximately **50%** of **48%** of Medicare beneficiaries enrolled in Medicare Advantage plans. This percentage has steadily increased over time since 2003. The Congressional Budget Office projects that the share of all Medicare beneficiaries enrolled in Medicare Advantage plans will rise to about **61%** **62%** by **2032** **2033**. We expect the percentage of our total revenues attributable to Medicare Advantage plans to continue to grow as well. Typically, Medicare Advantage and other managed care plans reimburse us less than traditional Medicare for the same type of care and patient, but that differential has been shrinking in recent years.

Medicaid Reimbursement

Medicaid is a jointly administered and funded federal and state program that provides hospital and medical benefits to qualifying individuals who are deemed unable to afford healthcare. As the Medicaid program is administered by the individual states under the oversight of CMS in accordance with certain regulatory and statutory guidelines, there are substantial differences in reimbursement methodologies and coverage policies from state to state. **Many** **Historically**, states **have experienced** **experiencing** shortfalls in their Medicaid budgets **and are implementing significant** **have implemented** cuts in Medicaid reimbursement rates. Additionally, certain states control Medicaid expenditures through restricting or eliminating coverage of some services. **Continuing downward pressure on** **On average, our reimbursement per discharge from** Medicaid **payment rates could cause a decline in** is lower than that portion of our from Net operating revenues traditional Medicare, Medicare Advantage and other managed care payors. **However, for** **For** the year ended **December 31, 2022** **December 31, 2023**, Medicaid payments represented only **4.2%** **4.0%** of our consolidated Net operating revenues. **In certain states in which we operate, we are experiencing an increase in and** Medicaid **patients, partially the result** **discharges represented 6.3%** of **expanded coverage consistent with the intent of the ACA and expanded coverage resulting from regulatory actions during the COVID-19 public health emergency, our total inpatient discharges**. For additional discussion, see Item 1A, *Risk Factors*, "Changes in our payor mix or the acuity of our patients could adversely affect our Net operating revenues or our profitability," "**Reimbursement Risks**."

Cost Reports

Because of our participation in Medicare and Medicaid, we are required to meet certain financial reporting requirements. Federal and, where applicable, state regulations require the submission of annual cost reports covering the revenue, costs, and expenses associated with the services provided by healthcare providers to Medicare beneficiaries and

Medicaid recipients. These annual cost reports are subject to routine audits which may result in adjustments to the amounts ultimately determined to be due to us under these reimbursement programs. These audits are used for determining if any under- or over-payments were made to these programs and to set payment levels for future years. Medicare also makes retroactive adjustments to payments for certain low-income patients after comparing subsequently published statistical data from CMS to the cost report data. We cannot predict what retroactive adjustments, if any, will be made, but we do not anticipate these adjustments will have a material impact on us.

Regulation

The healthcare industry is subject to significant federal, state, and local regulation that affects our business activities by controlling the reimbursement we receive for services provided, requiring licensure or certification of our operations, regulating our relationships with physicians and other referral sources, regulating the use of our properties, and controlling our growth. State and local healthcare regulation may cover additional matters such as nurse staffing ratios, healthcare worker safety, **disclosure of charges for services provided**, marijuana legalization, and assisted suicide. We are also subject to the broader federal and state regulations that prohibit fraud and abuse in the delivery of healthcare services. Congress, HHS-OIG, and the DOJ have historically focused on fraud and abuse in healthcare. Since the 1980s, a steady stream of changes have stiffened **criminal and civil penalties** or made it easier for DOJ to impose liability on companies and individuals, and the pace of these changes has only been increasing. **The 2018 Budget Act continues this emphasis by increasing the criminal and civil penalties that can be imposed for violating federal health care laws, individuals**. As a healthcare provider, we are subject to periodic audits, examinations and investigations conducted by, or at the direction of, government investigative and oversight agencies. Failure to comply with applicable federal and state healthcare regulations can result in a provider's exclusion from participation in government reimbursement programs and in substantial civil and criminal penalties.

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

hospitals are subject to periodic resurvey to ensure the standards are being met.

Beyond healthcare specific regulations, we face increasing state and local regulation in areas, such as labor and employment and data privacy, traditionally subject to only or primarily federal regulation. In addition to the risk and burden of new, additional, or more stringent regulatory standards, these state and local regulations often conflict with federal regulation, and with each other. Given the number of locations in which we operate, increasing state and local regulation, which may be more stringent than federal regulation and may even conflict with federal or other state or local regulation, represents a significant burden and risk to us.

We maintain a comprehensive ethics and compliance program to promote conduct and business practices that meet or exceed requirements under laws, regulations, and industry standards. The program monitors the Company's performance on, and raises awareness of, various regulatory requirements among employees and emphasizes the importance of complying with governmental laws and regulations. As part of the compliance program, we provide annual compliance training to our employees, Board members, medical directors, vendors, and other non-employees that operate within our hospitals, and require all employees to report any violations to their supervisor or another person of authority or through a toll-free telephone hotline. Another integral part of our compliance program is a policy of non-retaliation against employees who report compliance concerns.

Licensure and Certification

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

In addition, inpatient rehabilitation hospitals must be certified by CMS to participate in the Medicare program and generally must be certified by Medicaid state agencies to participate in Medicaid programs. Certification and participation in these programs involve numerous regulatory obligations. For example, hospitals must treat at least 20 patients without reimbursement prior to certification and eligibility for Medicare reimbursement. Once certified by Medicare, hospitals undergo periodic on-site surveys and revalidations in order to maintain their certification. All of our inpatient hospitals participate in the Medicare program.

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

All Medicare providers are subject to employee screening requirements and associated fees. The screening of employees with patient access must include a licensure check and may include other procedures such as fingerprinting, criminal background checks, unscheduled and unannounced site visits, database checks, and other screening procedures prescribed by CMS. If a healthcare provider arranges or contracts with an individual or entity who is excluded by HHS-OIG from participation in a federal healthcare program, the provider may be subject to civil monetary penalties if the excluded person renders services reimbursed, directly or indirectly, by a program.

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

Certificates of Need

In some states and U.S. territories where we operate, the construction or expansion of facilities, the acquisition of existing facilities, or the introduction of new beds or inpatient services may be subject to review by and prior approval of state regulatory bodies under a "certificate of need," or "CON," law. As of **December 31, 2022** **December 31, 2023**, approximately **40%** **36%** of our licensed beds are in states or U.S. territories that have CON laws. CON laws require a reviewing authority or agency to determine the public need for additional or expanded healthcare facilities and services. These laws also generally require approvals for capital expenditures involving inpatient rehabilitation hospitals if such capital expenditures exceed certain thresholds. In addition, CON laws in some states require us to abide by certain charity care commitments as a condition for approving a CON. Any instance where we are subject to a CON law, we must obtain it before acquiring, opening, reclassifying, or expanding a healthcare facility or starting a new healthcare program.

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

In an attempt to reduce regulation and increase competition, lawmakers in several states have recently proposed modification or even full repeal of CON laws. In 2019, Florida enacted legislation to repeal CON laws for several provider types, including IRFs. **Similarly, in 2023, South Carolina enacted legislation to repeal CON laws for several provider types, including IRFs.** We believe CON-related legislation and regulation changes, including both repeal and expansion of CON requirements, will continue to be proposed in various states for the foreseeable future.

False Claims

The federal False Claims Act (the "FCA") imposes liability for the knowing presentation of a false claim to the United States government and provides for penalties equal to three times the actual amount of any overpayments plus up to approximately **\$25,000** **\$27,000** per claim. Federal civil penalties will be adjusted to account for inflation each year. In addition, the FCA allows private persons, known as "relators," to file complaints under seal and provides a period of time for the government to investigate such complaints and determine whether to intervene in them and take over the handling of all or part of such complaints. The government and relators may also allege violations of the FCA for the knowing and improper failure to report and refund amounts owed to the government in a timely manner following identification of an overpayment. This is known as a "reverse false

claim." The government deems identification of the overpayment to occur when a person has, or should have through reasonable diligence, determined that an overpayment was received and quantified the overpayment.

Because we have hundreds of thousands of claims a year for which we are reimbursed by Medicare and other federal payors and there is a relatively long statute of limitations, a billing error, cost reporting error or disagreement over physician

medical judgment could result in significant damages and civil and criminal penalties under the FCA. Many states have also adopted similar laws relating to state government payments for healthcare services. The ACA amended the FCA to expand the

definition of false claim, to make it easier for the government to initiate and conduct investigations, to enhance the monetary reward to relators where prosecutions are ultimately successful, and to extend the statute of limitations on claims by the government. The federal government has become increasingly aggressive in asserting that incidents of erroneous billing or record keeping represent FCA violations and in challenging the medical judgment of independent physicians as the basis for FCA allegations. Furthermore, well-publicized enforcement actions indicate that the federal government has increasingly sought to use statistical sampling to extrapolate allegations to larger pools of claims or to infer liability without proving knowledge of falsity of individual claims. A violation of the FCA by us could have a material adverse effect upon our business, financial position, results of operations, or cash flows. Even the assertion of a violation could have an adverse effect upon our stock price or reputation. For additional discussion, see Item 1A, *Risk Factors*, "Reimbursement Risks" and "Other Regulatory Risks" and Note 18, *Contingencies and Other Commitments*, to the accompanying consolidated financial statements.

Relationships with Physicians and Other Providers

Anti-Kickback Law. Various state and federal laws regulate relationships between providers of healthcare services, including management or service contracts and investment relationships. Among the most important of these restrictions is a federal law prohibiting the offer, payment, solicitation, or receipt of remuneration by individuals or entities to induce referrals of patients for services reimbursed under the Medicare or Medicaid programs (the "Anti-Kickback Law"). The ACA amended the federal Anti-Kickback Law to provide that proving violations of this law does not require proving actual knowledge or specific intent to commit a violation. Another amendment made it clear that Anti-Kickback Law violations can be the basis for claims under the FCA. These changes and those described above related to the FCA, when combined with other recent federal initiatives, are likely to increase investigation and enforcement efforts in the healthcare industry generally. In addition to standard federal criminal and civil sanctions, including imprisonment and penalties of up to \$100,000 for each violation plus tripled damages for improper claims, violators of the Anti-Kickback Law may be subject to exclusion from the Medicare and/or Medicaid programs. Federal civil penalties will be adjusted to account for inflation each year. HHS-OIG regulations itemize compensation arrangements that are not viewed as illegal remuneration under the Anti-Kickback Law. Those regulations provide for certain safe harbors for identified types of compensation arrangements that, if fully complied with, assure participants in the particular arrangement that HHS-OIG will not treat that participation as a criminal offense under the Anti-Kickback Law or as the basis for an exclusion from the Medicare and Medicaid programs or the imposition of civil sanctions.

On November 20, 2020, HHS-OIG finalized a rule to modernize the Anti-Kickback Law by reducing regulatory barriers to care coordination and accelerating adoption of value-based delivery and payment models (the "2020 AKL Rule"). The 2020 AKL Rule adds several new safe harbors for value-based arrangements and modifies several existing safe harbors with the goal of encouraging innovations that are beneficial to patients while maintaining necessary safeguards to protect against fraud and abuse. The 2020 AKL Rule also expands the safe harbor for cybersecurity technology by covering remuneration in the form of cybersecurity technology and services. The new and modified value-based safe harbors are available to inpatient rehabilitation providers if the applicable conditions are met.

Failure to fall within a safe harbor does not constitute a violation of the Anti-Kickback Law, but HHS-OIG has indicated failure to fall within a safe harbor may subject an arrangement to increased scrutiny. A violation of the Anti-Kickback Law by us or one or more of our joint ventures could have a material adverse effect upon our business, financial position, results of operations, or cash flows. Even the assertion of a violation could have an adverse effect upon our stock price or reputation.

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

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

Physician Self-Referral Law. The federal law commonly known as the "Stark law" and CMS regulations promulgated under the Stark law prohibit physicians from making referrals for "designated health services" including inpatient and outpatient hospital services, physical therapy, occupational therapy, radiology services, and home health services, to an entity in

which the physician (or an immediate family member) has an investment interest or other financial relationship, subject to certain exceptions. The Stark law also prohibits those entities from filing claims or billing Medicare for those referred services. Violators of the Stark law and regulations may be subject to recoupments, civil monetary sanctions (up to

\$27,750 approximately \$30,000 for each violation and assessments up to three times the amount claimed for each prohibited service) and exclusion from any federal, state, or other governmental healthcare programs. The statute also provides a penalty of up to \$185,000 approximately \$200,000 for a circumvention scheme. Federal civil penalties will be adjusted to account for inflation each year. There are statutory exceptions to the Stark law for many of the customary financial arrangements between physicians and providers, including personal services contracts and leases. However, in order to be afforded protection by a Stark law exception, the financial arrangement must comply with every requirement of the applicable exception.

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

On November 20, 2020, CMS finalized a rule implementing various changes to the Stark law to provide better access and outcomes for patients by creating clearer paths for providers to serve patients through enhanced coordinated care agreements (the "2020 Stark Rule"). Notably, the 2020 Stark Rule creates permanent exceptions for value-based compensation arrangements that provide at least one value-based activity, which arrangements must further one value-based purpose, which may include: (1) coordinating and managing patient care; (2) improving quality of care for a target population; (3) reducing costs or expenditure growth without reducing quality of care; and (4) transitioning from health care delivery and payment mechanisms that are based on volume to outcome-based delivery and payment systems. In addition, the 2020 Stark Rule adopts a new exception regarding the provision of cybersecurity items to physicians and makes permanent the electronic health record exception under the Stark law.

The complexity of the Stark law and the associated regulations and their associated strict liability provisions are a challenge for healthcare providers, who do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. We attempt to structure our relationships to meet one or more exceptions to the Stark law, but the regulations implementing the exceptions are detailed and complex. Accordingly, we cannot assure that every relationship complies fully with the Stark law.

Additionally, no assurances can be given that any agency charged with enforcement of the Stark law and regulations might not assert a violation under the Stark law, nor can there be any assurance our defense against any such assertion would be successful or that new federal or state laws governing physician relationships, or new interpretations of existing laws governing such relationships, might not adversely affect relationships we have established with physicians or result in the imposition of penalties on us. A violation of the Stark law by us could have a material adverse effect upon our business, financial position, results of operations, or cash flows. Even the assertion of a violation could have an adverse effect upon our stock price or reputation.

HIPAA

The Health Insurance Portability and Accountability Act of 1996, commonly known as "HIPAA," broadened the scope of certain fraud and abuse laws by adding several criminal provisions for healthcare fraud offenses that apply to all health benefit programs. HIPAA also added a prohibition against incentives intended to influence decisions by Medicare or Medicaid beneficiaries as to the provider from which they will receive services. In addition, HIPAA created new enforcement mechanisms to combat fraud and abuse, including the Medicare Integrity Program, and an incentive program under which individuals can receive a monetary reward for providing information on Medicare fraud and abuse that leads to the recovery of Medicare funds. Penalties for violations of HIPAA include civil and criminal monetary penalties. The HHS United States Department of Health and Human Services Office of Civil Rights ("HHS-OCR") implemented a permanent HIPAA audit program for healthcare providers nationwide in 2016. As of December 31, 2022 December 31, 2023, we have not been selected for audit.

HIPAA and related HHS regulations contain certain administrative simplification provisions that require the use of uniform electronic data transmission standards for certain healthcare claims and payment transactions submitted or received electronically. HIPAA regulations also regulate the use and disclosure of individually identifiable health-related information,

whether communicated electronically, on paper, or orally. The regulations provide patients with significant rights related to understanding and controlling how their health information is used or disclosed and require healthcare providers to implement administrative, physical, and technical practices to protect the security of individually identifiable health information.

The Health Information Technology for Economic and Clinical Health ("HITECH") Act modifies and expands the privacy and security requirements of HIPAA. The HITECH Act applies certain of the HIPAA privacy and security requirements directly to business associates of covered entities. The modifications to existing HIPAA requirements include: expanded accounting requirements for electronic health records, tighter restrictions on marketing and fundraising, and heightened penalties and enforcement associated with noncompliance. Significantly, the HITECH Act also establishes new mandatory federal requirements for notification of breaches of security involving protected health information. HHS-OCR rules implementing the HITECH Act expand the potential liability for a breach involving protected health information to cover some instances where a subcontractor is responsible for the breaches and that individual or entity was acting within the scope of delegated authority under the related contract or engagement. These rules generally define "breach" to mean the acquisition, access, use or disclosure of protected health information in a manner not permitted by the HIPAA privacy standards, which compromises the security or privacy of protected health information. Under these rules, improper acquisition, access, use, or disclosure is presumed to be a reportable breach, unless the potentially breaching party can demonstrate a low probability that protected health information has been compromised.

In December 2020, HHS-OCR proposed a new rule that would modify HIPAA regulations. According to HHS-OCR, the proposed rule is intended to promote care coordination and value-based care. The proposed changes to the HIPAA rules also provide for strengthening individuals' rights to access their own health information, including electronic information; improving information sharing for care coordination and case management for individuals; facilitating greater family and caregiver involvement in the care of individuals experiencing emergencies or health crises; enhancing flexibilities for disclosures in emergency or threatening circumstances, such as the opioid and COVID-19 public health emergencies; and reducing administrative burdens on HIPAA covered healthcare providers and health plans, while continuing to protect individuals' health information privacy interests. Although one of the stated purposes of the proposed rules is to reduce healthcare providers burdens, providers would have to engage in a number of activities to come into compliance if the changes are finalized, including changing policies and procedures, changing patient privacy notices and business associate agreements and training workforce members in the new requirements.

HHS-OCR is responsible for enforcing the requirement that covered entities notify **HHS the United States Department of Health and Human Services ("HHS")** and any individual whose protected health information has been improperly acquired, accessed, used, or disclosed. In certain cases, notice of a breach is required to be made to media outlets. The heightened penalties for noncompliance range from \$100 to \$50,000 per violation for most violations. In the event of violations due to willful neglect that are not corrected within 30 days, penalties start at approximately \$64,000 per violation and are not subject to a per violation statutory maximum. Penalties are also subject to an annual cap for multiple identical violations in a single calendar year. Pursuant to guidance from HHS-OCR, this enforcement cap ranges from a minimum of \$25,000 per year to a maximum of \$1,500,000 per year depending on an entity's level of culpability. Importantly, HHS-OCR has indicated that the failure to conduct a security risk assessment or adequately implement HIPAA compliance policies could qualify as willful neglect.

In addition, there are numerous legislative and regulatory initiatives at the federal and state levels addressing patient privacy concerns. Healthcare providers will continue to remain subject to any federal or state privacy-related laws, including but not limited to the California Consumer Privacy Act, that are more restrictive than the privacy regulations issued under HIPAA. These laws vary and could impose additional penalties. HHS-OIG and other regulators have also increasingly interpreted laws and regulations in a manner as to increase exposure of healthcare providers to allegations of noncompliance. Any actual or perceived violation of privacy-related laws and regulations, including HIPAA and the HITECH Act, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Civil Monetary Penalties Law

Under the Civil Monetary Penalties Law, HHS may impose civil monetary penalties on healthcare providers that present, or cause to be presented, ineligible reimbursement claims for services. The 2018 Budget Act increased the civil monetary penalties, which vary depending on the offense from \$5,000 to \$100,000 per violation, plus treble damages for the amount at issue and may include exclusion from federal health care programs such as Medicare and Medicaid. The penalties are adjusted annually to account for inflation. HHS may seek to impose monetary penalties under this law for, among other things, offering inducements to beneficiaries for program services and filing false or fraudulent claims.

Available Information

We make available through our website, www.encompasshealth.com, the following documents, free of charge: our annual reports (Form 10-K), our quarterly reports (Form 10-Q), our current reports (Form 8-K), and any amendments to those reports promptly after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission.

Item 1A. Risk Factors

Our business, operations, and financial position are subject to various risks. Some of these risks are described below, and the reader should take such risks into account in evaluating Encompass Health or any investment decision involving Encompass Health. This section does not describe all risks that may be applicable to us, our industry, or our business, and it is intended only as a summary of material risk factors. More detailed information concerning other risks and uncertainties as well as those described below is contained in other sections of this annual report. Still other risks and uncertainties we have not or cannot foresee as material to us may also adversely affect us in the future. If any of the risks below or other risks or uncertainties discussed elsewhere in this annual report are actually realized, our business and financial condition, results of operations, and cash flows could be adversely affected. In the event the impact is materially adverse, the trading price of our common stock could decline.

Risks Related to the Spin Off of Our Home Health and Hospice Business

We may not be able to engage in beneficial capital-raising or strategic transactions.

On July 1, 2022, we completed the previously announced separation of our home health and hospice business through the distribution (the "Spin Off") of all of the outstanding shares of common stock, par value \$0.01 per share, of Enhabit, Inc. ("Enhabit") to the stockholders of Encompass Health. As a result of the Spin Off, Enhabit is now an independent public company and its common stock is listed under the symbol "EHAB" on the New York Stock Exchange. The Spin Off is intended to be a tax-free transaction. Under current U.S. federal income tax law, a spin off that otherwise qualifies for tax-free treatment can be rendered taxable to the parent corporation and its stockholders as a result of certain post-spin-off transactions, including certain acquisitions of shares or assets of the parent corporation. To preserve the tax-free treatment of the Spin Off, we may be limited, for a period of time, in our ability to pursue certain equity issuances, strategic transactions, repurchases, or other transactions (including certain dispositions of assets) that we may otherwise believe to be in the best interests of our stockholders or that might increase the value of our business.

If the Spin Off were to fail to qualify as tax-free, including as a result of transactions in our stock or the stock of Enhabit, we could be subject to significant tax liabilities.

We received a private letter ruling from the Internal Revenue Service regarding certain U.S. federal income tax matters relating to the Spin Off and its associated transactions and an opinion of outside counsel regarding the qualification of certain elements of those transactions. Although we intend for the Spin Off to be tax-free for U.S. federal income tax purposes, there can be no assurance that the Spin Off will not trigger a tax event. Even if the Spin Off were to otherwise qualify as a tax-free transaction under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code, it may result in taxable gain to us (but not our stockholders) under Section 355(e) of the Code if it is deemed to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, shares representing a 50% or greater ownership interest (by vote or value) in us or Enhabit. If the IRS were to determine that any post-Spin Off acquisitions of our stock or that of Enhabit, pursuant to such a plan (when aggregated with any pre-Spin Off acquisitions of our stock or that of Enhabit, as applicable, pursuant to such a plan) would represent a 50% or greater ownership interest therein, such determination could result in significant tax liabilities to us. Any such tax liabilities imposed on us may adversely affect an investment in our stock.

Under a tax matters agreement we entered into with Enhabit in connection with the Spin Off, Enhabit is required to indemnify us for any taxes we incur resulting from the Spin Off to the extent such amounts result from certain disqualifying actions by, or acquisition of equity securities of, Enhabit. Additionally, Enhabit is generally required to indemnify us for a specified portion of any taxes we incur (a) arising as a result of the failure of the Spin Off and certain related transactions to qualify as a transaction that is generally tax-free or a failure of the Spin Off that is intended to qualify as a transaction that is generally tax-free to so qualify to the extent such amounts did not result from a disqualifying action by, or acquisition of equity securities of, Enhabit or us or (b) arising from certain audit or other adjustments to tax liabilities incurred with respect to the Spin Off that were not intended to

qualify as tax-free. The amount of any such taxes for which we would be responsible may be significant, and if we were unable to obtain indemnification payments from Enhabit to which we are entitled under the tax matters agreement or other agreements entered into in connection with the Spin Off, we would incur significant losses.

Reimbursement Risks

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

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

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act of 2010 (the “ACA”) as a significant healthcare reform. Many provisions within the ACA have impacted or could in the future impact our business, including Medicare reimbursement reductions and promotion of alternative payment models, such as accountable care organizations (“ACOs”) and bundled payment initiatives. The nature and substance of state and federal healthcare laws are subject to change, by means of both broad base healthcare reform legislation, like the ACA, and targeted legislative and regulatory action. Any future legislative and regulatory changes may impact the provisions of the ACA discussed below or other laws or regulations that either currently affect, or may in the future affect, our business.

For Medicare providers like us, these laws include reductions in CMS’s annual adjustments to Medicare reimbursement rates, commonly known as a “market basket update.” In accordance with Medicare laws and statutes, CMS makes market basket updates by provider type in an effort to compensate providers for rising operating costs. The ACA required reductions, the last of which ended in 2019, in the annual market basket updates for hospital providers ranging from 10 to 75 basis points. In addition, the ACA requires the market basket updates for hospital providers to be reduced by a productivity adjustment on an annual basis. The productivity adjustment equals the trailing 10-year average of changes in annual economy-wide private nonfarm business multi-factor productivity. To date, the productivity adjustments have typically resulted in decreases to the market basket updates ranging from 30 to 100 basis points.

Other federal legislation can also have a significant impact on our Medicare reimbursement. On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which provided for an automatic 2% reduction of Medicare program payments. This automatic reduction, known as “sequestration,” began affecting payments received after April 1, 2013. Under current law, for each year through mid-fiscal year 2032, the reimbursement we receive from Medicare, after first taking into account all annual payment adjustments including the market basket update, will be reduced by sequestration unless it is repealed or modified before then. In response to the public health emergency associated with the COVID-19 pandemic, Congress and the President suspended sequestration from May 1, 2020 through March 31, 2022.

Additional Medicare payment reductions are also possible under the Statutory Pay-As-You-Go Act of 2010 (“Statutory PAYGO”). Statutory PAYGO requires, among other things, that mandatory spending and revenue legislation not increase the federal budget deficit over a 5- or 10-year period. If the Office of Management and Budget (the “OMB”) finds there is a deficit in the federal budget, Statutory PAYGO requires OMB to order sequestration of Medicare. In March 2021, President Biden signed the American Rescue Plan Act of 2021 (the “American Rescue Plan Act”). The Congressional Budget Office estimated that the American Rescue Plan Act would result in budget deficits necessitating a 4% reduction in Medicare program payments for 2022 under the Statutory PAYGO, but subsequent legislation enacted by Congress suspended until 2025 the Statutory PAYGO reductions that would have gone into effect.

Additionally, concerns held by federal policymakers about the federal deficit, national debt levels, or healthcare spending specifically, including solvency of the Medicare trust fund, could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, and further reductions to provider payments. In October 2014, President Obama signed into law the Improving Medicare Post-Acute Care Transformation Act of 2014 (the “IMPACT Act”). The IMPACT Act directs HHS, in consultation with healthcare stakeholders, to implement standardized data collection processes for post-acute quality and outcome measures. Although the IMPACT Act does not specifically call for the implementation of a new post-acute payment system, we believe this act lays the foundation for possible future post-acute payment policies that would be based on patients’ medical conditions and other clinical factors rather than the setting where the care is provided, also referred to as “site neutral” reimbursement. CMS has begun changing current post-acute payment systems to improve comparability of patient assessment data and clinical characteristics across settings, which could make it easier to create a unified payment system in the future. For example, CMS recently established new case-mix classification models for both home health and skilled nursing facilities which rely on patient characteristics rather than the amount of therapy received to determine payments. Another example is CMS’s implementation of the new patient assessment measures for IRFs discussed below. The IMPACT Act also **creates** additional data reporting requirements for our **hospitals**. **hospitals in the domains of functional and cognitive status, skin integrity, medication reconciliation, incidence of major falls, and transfer of health information.** The precise details of these new reporting requirements, including timing and content, **are being** developed and implemented by CMS through the regulatory process **that we expect will over several years, and CMS may continue to take place over** make changes to these quality measures and standardized patient assessment data elements in the **next several years, future.** We cannot quantify the potential effects of the IMPACT Act on us.

Each year, the Medicare Payment Advisory Commission (“MedPAC”), an independent agency, advises Congress on issues affecting Medicare and makes payment policy recommendations to Congress for a variety of Medicare payment systems including, among others, the inpatient rehabilitation facility prospective payment system (the “IRF-PPS”). MedPAC also provides comments to CMS on proposed rules, including the prospective payment system rules. **Neither Congress nor CMS is not** obligated to adopt MedPAC recommendations, and, based on outcomes in previous years, there can be no assurance **Congress MedPAC’s recommendations will adopt MedPAC’s recommendations be adopted** in a given year. However, MedPAC’s recommendations have, and could in the future, become the basis for legislative or regulatory action.

In connection with CMS’s final rulemaking for the IRF-PPS in each year since 2008, MedPAC has recommended either no updates to payments or reductions to payments. For example, in **its March 2020 2023** report to Congress, MedPAC recommended, among other things, legislative changes to reduce by **5% 3%** the base payment rate under IRF-PPS. **The March 2020 report MedPAC has also previously** called on the HHS Secretary to conduct focused medical record reviews on IRFs. **In its March 2022 report, MedPAC again recommended reduction of the base payment rate under the IRF-PPS by 5%.**

In a June 2018 report mandated by the IMPACT Act, MedPAC reiterated its recommendation that Congress adopt a unified payment system for all post-acute care (a "PAC-PPS") in lieu of separate systems for inpatient rehabilitation facilities ("IRFs"), skilled nursing facilities, long-term acute-care hospitals, and home health agencies. A PAC-PPS would rely on "site neutral" reimbursement based on patients' medical conditions and other clinical factors rather than the care settings. MedPAC found a PAC-PPS to be feasible and desirable but also suggested many existing regulatory requirements, including, for IRFs, the 60% rule discussed below and the requirement for a minimum of three hours of therapy per day, should be waived or modified as part of implementing a PAC-PPS. MedPAC previously estimated, although we cannot verify the methodology or the accuracy of that estimate, a PAC-PPS would result in a 15% reduction in IRF reimbursements. As a precursor to a PAC-PPS, MedPAC discussed in November 2017 a potential recommendation to change the case-mix weights in each post-acute setting for 2019 and 2020 to a blend of the current setting specific weight and the proposed PAC-PPS weight, which MedPAC suggested would shift money from for-profit and freestanding IRFs to non-profit and hospital-based IRFs. MedPAC has also called for aligning Medicare regulatory requirements across post-acute providers, although the agency has acknowledged it could take years to complete this effort. MedPAC **is currently producing** another report on the PAC-PPS in June 2023. In that report, MedPAC concluded the design of a PAC-PPS is **expected to "relatively straight-forward"** but noted **"developing companion policies could take many years; implementing them would be delivered to Congress before July 2023, complex and possibly controversial."** Additionally, MedPAC previously has suggested that Medicare should ultimately move from fee-for-service reimbursement to more integrated payment models.

We cannot predict what alternative or additional deficit reduction initiatives, Medicare payment reductions, or post-acute care reforms, if any, will be adopted or enacted into law, or the timing or effect of any initiatives or reductions. Those initiatives or reductions would be in addition to many ordinary course reimbursement rate changes that CMS adopts each year as part of the market basket update rulemaking process for various provider categories. While we do not expect the drive toward integrated payment models, value-based purchasing, and post-acute site neutrality in Medicare reimbursement to subside, there will almost certainly be new or alternative healthcare reforms in the future which may change these initiatives and other healthcare laws and regulations. We cannot predict the nature or timing of any changes to the laws or regulations that either currently affect, or may in the future affect, our business.

There can be no assurance future governmental action will not result in substantial changes to, or material reductions in, our reimbursements. Similarly, we may experience material increases in our operating costs. For example, in 2022 and 2023, our wage and benefit costs increased at a rate in excess of our aggregate Medicare reimbursement rate increases. In any given year, the net effect of statutory and regulatory changes may result in a decrease in our reimbursement rate, and that decrease may occur at a time when our expenses are increasing. As a result, there could be a material adverse effect on our business, financial position, results of operations, and cash flows. For additional discussion of how we are reimbursed by Medicare, see Item 1, *Business*, "Regulatory and Reimbursement Challenges" and "Sources of Revenues—Medicare Reimbursement."

In addition, there are increasing pressures from managed care, including as a result of the ACA, from many Medicare Advantage, and other third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. For example, each year, CMS adopts updates to the payments to, and the payment policies for, Medicare Advantage payors, and those updates may result in a net decrease in payments to those payors. Our relationships with managed care and nongovernmental third-party payors, such as health maintenance organizations and preferred provider organizations, are generally governed by

negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. Our *Net operating revenues* and our ability to grow our business with these payors could be adversely affected if we are unable to negotiate and maintain favorable agreements with **third-party** these payors.

Quality reporting requirements could adversely affect the Medicare reimbursement we receive.

The focus on alternative payment models and value-based purchasing of healthcare services has, in turn, led to more extensive quality of care reporting requirements. In many cases, the new reporting requirements are linked to reimbursement incentives. For example, under the ACA, CMS established new quality data reporting, effective October 1, 2012, for all IRFs. A facility's failure to submit the required quality data results in a two percentage point reduction to that facility's annual market basket increase factor for payments made for discharges in the subsequent Medicare fiscal year. Hospitals began submitting quality data to CMS in October 2012. All of our hospitals have met the reporting deadlines to date resulting in no corresponding reimbursement reductions.

As noted above, the IMPACT Act mandated that CMS adopt several new quality reporting measures for the various post-acute provider types. The adoption of additional quality reporting measures to track and report will require additional time and expense and could affect reimbursement in the future. In healthcare generally, the burdens associated with collecting, recording, and reporting quality data are increasing. Currently, CMS requires IRF providers to track and submit patient assessment data to support the calculation of 18 quality reporting measures.

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

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

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

In the context of our inpatient rehabilitation business, one of the common grounds cited for denying a claim or challenging a previously paid Medicare claim in an audit is that the patient's treatment in a hospital was not medically necessary. The medical record must support that both the documentation and coverage criteria requirements are met for the hospital stay to be considered medically necessary. Medical necessity is an assessment by an independent physician of a patient's ability to tolerate and benefit from intensive

multi-disciplinary therapy provided in an IRF setting. A Medicare claim may be denied or challenged based on an opinion of the auditor that the record did not evidence medical necessity for treatment in an IRF or lacked sufficient documentation to support the conclusion. Some MACs have in the past applied and are likely in the future to apply their own unique interpretation of CMS coverage rules or impose otherwise arbitrary conditions not set out in the related rules, which has resulted and may in the future result in payment denials.

In some cases, we believe the reviewing party is not merely challenging the sufficiency of the medical record but is substituting its judgment of medical necessity for that of the attending physician or imposing documentation or other requirements that are not set out in the regulations. We argue that doing so is inappropriate and has no basis in law. When the government or its contractors reject the medical judgment of physicians or impose documentation and other requirements beyond the language of the statutes and regulations, patient access to inpatient rehabilitation as well as our Medicare reimbursement from the related claims may be adversely affected.

In August 2017, CMS announced the Under CMS's Targeted Probe and Educate ("TPE") initiative. Under the TPE program, MACs use data analysis to identify healthcare providers with high claim error rates and items and services that have high national error rates. Once a MAC selects a provider for claims review, the initial volume of claims review is limited to 20 to 40 claims. The TPE program includes up to three rounds of claims review with corresponding provider education and a subsequent period to allow for improvement. If results do not improve sufficiently after three rounds, the MAC may refer the provider to CMS for further action, which may include extrapolation of error rates to a broader universe of claims or referral to a UPIC or RAC (defined below). As of December 31, 2022, none of our hospitals have progressed beyond the third round of reviews, so it is unclear how the review process after TPE would proceed. The TPE program takes significant time and effort on the part of the

MACs, and MACs may not be adequately staffed to administer the program correctly or in accordance with Medicare coverage rules. We cannot predict whether the TPE initiative or similar probes or reviews will materially impact our reimbursement or the timeliness of collections from Medicare in the future.

CMS has developed and instituted various audit programs under which CMS contracts with private companies to conduct claims and medical record audits. These audits are in addition to those conducted by existing MACs. Some contractors are paid a percentage of the overpayments recovered. One type of audit contractor, the Recovery Audit Contractors ("RACs"), receive claims data directly from MACs on a monthly or quarterly basis and are authorized to review previously paid claims. RAC audits of IRFs have focused on reviews of patient coding, medical necessity, and billing accuracy. CMS has, however, authorized RACs to conduct complex reviews of the medical records associated with IRF reimbursement claims. CMS has previously operated a demonstration project that expanded the RAC program to include prepayment review of Medicare fee-for-service claims from primarily acute-care hospitals. It is unclear whether CMS intends to conduct RAC prepayment reviews in the future and if so, what providers and claims would be the focus of those reviews.

CMS has also established other types of contractors, known as including the Uniform Program Integrity Contractors ("UPICs," formerly known as Zone Program Integrity Contractors) UPICs and the Supplemental Medical Review Contractor ("SMRC"). These contractors The UPICs conduct audits with a focus on potential fraud and abuse issues. Like the RACs, the UPICs conduct audits and have the ability to refer matters to the HHS-OIG or the United States Department of Justice ("DOJ"). Unlike RACs, however, UPICs do not receive a specific financial incentive based on the amount of the error. In December 2017, we received notice of a UPIC audit at one of our hospitals. The UPIC sampled 100

claims and challenged the propriety of a subset of the sample representing \$1.3 million in previously paid claims. The UPIC extrapolated the alleged error rate to all claims from that hospital during a period of approximately four years, resulting in an alleged overpayment of \$33.9 million. Our MAC later reduced the determination of overpayment to \$30.5 million, which it collected through recoupment of current claims during 2019. We appealed the overpayment determination to an Administrative Law Judge ("ALJ"), who heard the appeal in August 2021. In October 2022, the ALJ overturned \$12.5 million of the overpayment determination. We received payment of this amount, plus \$3.2 million in interest, in December 2022. We have appealed the remaining \$18.0 million of the overpayment determination to the next level of administrative appeal, challenging both the denials and the improper use of extrapolation. It is not possible to predict when this matter will be resolved or the ultimate outcome. The SMRC conducts nationwide medical reviews of Medicare claims to determine compliance with coverage, coding, payment, and billing requirements. During the first quarter of 2023, the SMRC initiated a review of claims from March 2020 through December 2020 totaling approximately \$21 million. We have received initial results for the claims under review and, as of December 31, 2023, approximately 87% of these have been approved with approximately \$3 million under appeal.

Audits may lead to assertions that we have been underpaid or overpaid by Medicare or have submitted improper claims in some instances. Such assertions may require us to incur additional costs to respond to requests for records and defend the validity of payments and claims and may ultimately require us to refund any amounts determined to have been overpaid. In some circumstances auditors have the authority to extrapolate denial rationales to large pools of claims not actually audited, which could greatly increase the impact of the audit. As a result, we may suffer reduced profitability, and we may have to elect not to accept patients and conditions physicians believe can benefit from inpatient rehabilitation. We cannot predict when or how these audit programs will affect us.

Our managed care, including Medicare Advantage, and other third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to us. We could be adversely affected in some of the markets where we operate if the one or more auditing payor alleges payors allege substantial overpayments were made to us due to coding errors or lack of documentation to support medical necessity determinations. Similarly, there can be no assurance that our current or future MACs will not make restrictive or otherwise incorrect interpretations of Medicare coverage rules. Because one MAC has jurisdiction over a significant number of our hospitals and our hospitals derive a substantial portion of their revenue from Medicare, the adoption of restrictive or otherwise incorrect interpretations of coverage rules by that MAC could result in a large number of payment denials and materially and adversely affect our financial position, results of operations, and cash flows.

Delays Substantive and procedural deficiencies in the administrative appeals process associated with denied Medicare reimbursement claims could delay or and reduce our reimbursement for services previously provided.

Ordinary course Medicare pre-payment denials by MACs, as well as denials resulting from post-payment audits, are subject to appeal by providers. HHS provides an appeals initial appeal process through its ALJs. We have historically appealed a majority of our claims denials. Due to the sheer number of appeals by all Medicare providers and

various administrative inefficiencies, including a shortage of judges, appeals that are required by statute to be resolved in a matter of months have commonly in the past taken years to complete. In recent years, this protracted appeals process led to a significant backlog of appeals of denials, which a federal judge ultimately ordered HHS to resolve by the end of 2022. By December 31, 2022, we cleared substantially all of our backlog awaiting ALJ hearing. hearing had been resolved. However, there can be no assurance significant backlogs will not develop in the future in the event the rate of new claims denials exceeds the rate at which those claims are resolved in the appeal process.

Providers may appeal adverse ALJ rulings to the Department Appeals Board (the "DAB"). Denials by the DAB may be appealed to United States district courts. As of December 31, 2023, we have approximately \$5 million and \$31 million in denied claims awaiting review at the ALJ and DAB levels, respectively. In addition, we have approximately \$7 million in claims denied by the DAB pending review by United States district courts as of December 31, 2023.

Changes implemented by CMS to resolve the prior appeal backlog may have harmed the ability of providers like us to recover on valid Medicare claims. The Medicare appeals adjudication process is administered by the Office of Medicare Hearings and Appeals ("OMHA"). Beginning in March 2020, OMHA increased the frequency of ALJ hearings and the number of claims set at each hearing, which we believe adds to the substantive and procedural deficiencies in the ALJ appeals process. We are exploring various remedies to counter those deficiencies. We believe it is too early to determine what impact, if any, these recent changes

Based on a number of factors, including prior experience in the appeals process, will have on our long-term success rate or Net operating revenues.

Providers may appeal adverse ALJ rulings to the Department of Appeals Boards (the "DAB"), the final level of administrative review. As of December 31, 2022, we have appealed approximately \$52 million in claims awaiting review at the DAB. In addition, we have appealed approximately \$6 million in claims denied by the DAB to several United States District courts, all of which are pending review as of December 31, 2022.

We believe the process for resolving individual Medicare payment claims that are denied will continue to take several years. Additionally, the number of new denials frequently exceeds the number of appeals resolved in a given year (CMS suspended payment reviews for several months because of the public health emergency in 2020) as shown in the following summary of our inpatient rehabilitation segment activity:

	New Denials	Collections of Previously Denied Claims	Revenue Reserve for New Denials
		(In Millions)	
2022	\$59.2	\$35.8	\$6.4
2021	0.8	29.3	0.4
2020	1.7	22.0	1.3
2019	20.2	14.9	6.1
2018	10.2	14.1	3.0

We record our estimates for pre-payment denials and for post-payment audit denials that will ultimately not be collected as a component of Net operating revenues. See Note 1, Summary of Significant Accounting Policies, "Net Operating Revenues," to the accompanying consolidated financial statements. In the fourth quarter of 2023, we recorded an aggregate amount of \$21.9 million in additional reserves for estimated uncollectible amounts associated with claims that were part of the prior appeal backlog. The increase in reserves was driven principally by an increase in unfavorable adjudication outcomes experienced at the DAB during the second

half of 2023 and largely offset the remaining net carrying value of these claims. We may experience additional decreases in Net operating revenues and decreases in cash flow as a result of the greater frequency of unfavorable resolution of denials or increasing unresolved denials and the associated increasing accounts receivable, which may in turn force us to change the patients we admit and conditions we treat. Any of these impacts could have an adverse effect on our financial position, results of operations, and liquidity. Although Congress has considered legislation to reform and improve the Medicare audit and appeals process, we cannot predict what, if any, legislation will be adopted or what, if any, effect that legislation might have on the audit and appeals process.

Changes in our payor mix or the acuity of our patients could adversely affect our Net operating revenues or our profitability.

Many factors affect reimbursement rates for our services and, in turn, our revenues. These factors include the treating facility's urban or rural status, the length of stay, the payor and its applicable rate of reimbursement, and the patient's medical condition and impairment status (acuity). The reimbursement rates we receive from traditional Medicare fee-for-service are generally higher than those received from other payors, although the difference between traditional Medicare and Medicare Advantage payments for inpatient rehabilitation care has decreased in the last several years. Over the same period, we have seen a shift in the payor mix from traditional Medicare to Medicare Advantage and other managed care providers. Not only do Medicare Advantage and managed care payors generally pay us less, but we would expect bad debt to be slightly higher for patients covered by Medicare Advantage and managed care as patients typically retain more payment responsibility under those arrangements.

Additionally, the rate at which Medicare Advantage referrals are converted to admissions is lower than the rate for traditional Medicare.

We have also experienced a shift in recent years to a slightly larger percentage of Medicaid patients, driven in part by the expansion of coverage consistent with the intent of the ACA and the expansion of coverage resulting from regulatory actions during the COVID-19 public health emergency. Medicaid reimbursement rates are almost always the lowest among those of our payors, and frequently Medicaid patients come to us with other complicating conditions that make treatment more difficult and costly. We cannot predict the growth of, or changes to, Medicaid, but President Biden has stated that he favors extending public health insurance coverage to low income individuals currently ineligible for Medicaid.

We could also experience a shift to a lower average patient acuity which typically results in lower reimbursement rates regardless of the payor. Both a shift in our payor mix away from Medicare fee-for-service and a shift to a lower patient acuity would likely adversely affect reimbursement. See the "Results of Operations—Net Operating Revenues" section of Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. We cannot predict the extent to which our payor mix may shift to lower

reimbursement rate payors. We have in recent years experienced, and in the future may, experience shifts in our payor mix or the acuity of our patients that could adversely affect our reimbursement, *Net operating revenues*, and profitability.

Delays in collection or non-collection of our accounts receivable could adversely affect our business, financial position, results of operations, cash flows, and liquidity.

Reimbursement is typically conditioned on our documenting medical necessity and correctly applying diagnosis codes. Incorrect or incomplete documentation and billing information could result in non-payment for services rendered. Billing and collection of our accounts receivable are further subject to the complex regulations that govern Medicare and Medicaid reimbursement and rules imposed by nongovernment payors. Our inability to bill and collect on a timely basis pursuant to these regulations and rules could subject us to payment delays that could have a material adverse effect on our business, financial position, results of operations, cash flows, and liquidity.

In addition, timing delays in billings and collections may increase our working capital burden. Working capital management, including prompt and diligent billing and collection, is an important factor in our financial position and results of operations and in maintaining liquidity. It is possible that Medicare, Medicaid, documentation support, system problems or other provider issues or industry trends, particularly with respect to newly acquired entities for which we have limited operational experience, may extend our collection period, which may materially adversely affect our working capital, and our working capital management procedures may not successfully mitigate this risk.

The timing of payments made under the Medicare and Medicaid programs is subject to governmental budgetary constraints, which may result in an increased period of time between submission of claims and subsequent payment under specific programs, most notably under the Medicare and Medicaid managed care programs, which in many cases pay claims significantly slower than traditional Medicare or state Medicaid programs do as a result of more complicated authorization, billing and collecting processes that are required by Medicare and Medicaid managed care programs. In addition, we may experience delays in reimbursement as a result of the failure to receive prompt approvals related to change of ownership applications for acquired or other facilities or from delays caused by our or other third parties' information system failures. Furthermore, the proliferation of Medicare and Medicaid managed care programs could have a material adverse impact on the results of our operations as a result of more complicated authorization, billing and collection requirements implemented by such programs.

A change in our estimates of collectability or a delay in collection of accounts receivable could adversely affect our results of operations and liquidity. The estimates are based on a variety of factors, including the length of time receivables are past due, significant one-time events, contractual rights, **client funding, political pressures, discussions with clients, the nature of the underlying payment denials**, and historical experience. **In the fourth quarter of 2023, we recorded aggregate amount of \$21.9 million in additional reserves for estimated uncollectible amounts associated with claims denied and appealed prior to 2023. The increase in reserves largely offset the accounts receivable associated with these claims.** A delay in collecting our accounts receivable, or the non-collection of accounts receivable, including, without limitation, in connection with our transition and integration of acquired companies and the attendant movement of underlying billing and collection operations from legacy systems to future systems, could have a material negative impact on our results of operations and liquidity, and we could be required to record impairment charges on our financial statements.

Efforts to reduce payments to healthcare providers undertaken by third-party payors, conveners, and referral sources could adversely affect our revenues and profitability.

Health insurers and managed care companies, including Medicare Advantage plans, may utilize certain third parties, known as conveners, to attempt to control costs. Conveners offer patient placement and care transition services to those payors as well as bundled payment participants, ACOs, and other healthcare providers with the intent of managing post-acute utilization and associated costs. Conveners may influence referral source decisions on which post-acute setting to recommend, as well as how long to remain in a particular setting. Given their focus on perceived financial savings, conveners customarily suggest that patients avoid higher acuity post-acute settings altogether or move as soon as practicable to lower acuity settings as those settings are reimbursed at lower rates due to the lower level of care they are required to provide. Conveners are not healthcare providers and may suggest a post-acute setting or duration of care that may not be appropriate from a clinical perspective potentially resulting in worse patient outcomes and costly acute-care hospital readmissions.

We also depend on referrals from physicians, acute-care hospitals, and other healthcare providers in the communities we serve. As a result of various alternative payment models, many referral sources are becoming increasingly focused on reducing post-acute costs by eliminating post-acute care referrals or referring patients to perceived low-cost post-acute settings rather than rehabilitation hospitals, sometimes without understanding the potential impact on patient outcomes over an entire episode of care. Our ability to attract patients could be adversely affected if any of our hospitals fail to provide or maintain a reputation for providing high-quality care on a cost-effective basis as compared to other providers.

Quality reporting requirements could adversely affect the Medicare reimbursement we receive.

The focus on alternative payment models and value-based purchasing of healthcare services has, in turn, led to more extensive quality of care reporting requirements. In many cases, the new reporting requirements are linked to reimbursement incentives. For example, under the ACA, CMS established new quality data reporting, effective October 1, 2012, for all IRFs. A facility's failure to submit the required quality data results in a two percentage point reduction to that facility's annual market basket increase factor for payments made for discharges in the subsequent Medicare fiscal year. Hospitals began submitting quality data to CMS in October 2012. All of our hospitals have met the reporting deadlines to date resulting in no corresponding reimbursement reductions.

The IMPACT Act mandated that CMS adopt several new quality reporting measures for the various post-acute provider types. The adoption of additional quality reporting measures to track and report will require additional time and expense and could affect reimbursement in the future. In healthcare generally, the burdens associated with collecting, recording, and reporting quality data are increasing. There can be no assurance all of our hospitals will meet quality reporting requirements or quality performance in the future which may result in one or more of our hospitals seeing a reduction in its Medicare reimbursements. Regardless, we, like other healthcare providers, are likely to incur additional expenses in an effort to comply with additional and changing quality reporting requirements.

Other Regulatory Risks

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

The healthcare industry in general is facing regulatory uncertainty around attempts to improve outcomes and reduce costs, including coordinated care and integrated payment models. In an integrated payment model, hospitals, physicians, and other care providers are reimbursed in a fashion meant to encourage coordinated healthcare on a more efficient, patient-centered basis. These providers are then paid based on the overall value and quality (as determined by outcomes) of the services they provide to a patient rather than the number and nature of services they provide. While this is consistent with our goal and proven track record of being a high-quality, cost-effective provider, broad-based implementation of a new payment model would represent a significant evolution or transformation of the healthcare industry, which may have a significant impact on our business and results of operations.

In recent years, HHS has been studying the feasibility of bundling, including conducting a voluntary, multi-year bundling pilot program to test and evaluate alternative payment methodologies. CMS' voluntary Bundled Payments for Care Improvement Advanced ("BPCI Advanced") initiative began October 1, 2018, runs through December 31, 2025, and covers 29 types of inpatient, three types of outpatient clinical episodes, and two multi-setting clinical episodes, including stroke and hip fracture. Providers participating in BPCI Advanced are subject to a semi-annual reconciliation process where CMS compares the aggregate Medicare expenditures for all items and services included in a clinical episode against the target price for that type of episode to determine whether the participant is eligible to receive a portion of the savings, or is required to repay a portion of the payment above target. Accordingly, reimbursement may be increased or decreased, compared to what would otherwise be due, based on whether the total Medicare expenditures and patient outcomes meet, exceed or fall short of the targets.

Similarly, CMS has established per the ACA several separate ACO programs, the largest of which is the Medicare Shared Savings Program ("MSSP"), a voluntary ACO program in which hospitals, physicians, and other care providers pursue the delivery of coordinated healthcare on a more efficient, patient-centered basis. Conceptually, ACOs receive a portion of any savings generated above a certain threshold from care coordination as long as benchmarks for the quality of care are maintained. Under the MSSP, there are two ACO tracks from which participants can choose. Each track offers a different degree to which participants share any savings realized or any obligation to repay losses suffered. The ACO rules adopted by

CMS are extremely complex and remain subject to further refinement by CMS. Based on the CMS data, below, the number of MSSP has not experienced growth ACOs for 2024 is the same as it was in recent years.

	Number of ACOs	Assigned Beneficiaries (In Millions)
2023	456	10.9
2022	483	11.0
2021	477	10.7
2020	517	11.2

2017.

We continue to evaluate, on a case-by-case basis, appropriate BPCI Advanced and ACO participation opportunities for our hospitals. We are party to 30 participation or preferred provider agreements in connection with these alternative payment models. The associated hospitals have treated only a limited number of patients under these alternative payment models to date.

On November 16, 2015, CMS published its final rule establishing the Comprehensive Care for Joint Replacement ("CJR") payment model, which holds acute-care hospitals accountable for the quality of care they deliver to Medicare fee-for-service beneficiaries for lower extremity joint replacements (i.e., knees and hips) from surgery through recovery. The CJR originally was mandatory for the acute-care hospitals in the 67 geographic areas covered. On November 30, 2017, CMS issued a final rule making the CJR voluntary in 33 of those areas. The CJR model's original five-year term ended in December 2020, but CMS extended the model through 2024 for most providers in the 34 geographic areas with mandatory participation. Under CJR, healthcare providers in the mandatory participation areas are paid under existing Medicare payment systems. However, CMS holds the acute-care hospital where a joint replacement takes place accountable for the quality and costs of care for the entire episode of care — from the time of the original admission through 90 days after discharge. Depending on the quality and cost performance during the entire episode, the acute-care hospital may receive an additional payment or be required to repay Medicare a portion of the episode costs. As a result, CMS believes acute-care hospitals are incented to work with physicians and post-acute care providers to ensure beneficiaries receive the coordinated care they need in an efficient manner. Acute-care hospitals participating in the CJR model may enter into risk-sharing financial arrangements with post-acute providers, including IRFs. CJR has not had a material impact on our hospitals.

HHS and CMS continue to explore ways to encourage and facilitate increased participation in alternative payment models and value-based purchasing initiatives. For example, the HHS-OIG and CMS finalized rules in 2020 modernizing the Anti-Kickback Statute and Stark law to, in part, promote a more coordinated, value-based system of care. The bundling and ACO initiatives have served as motivating factors for regulators and healthcare industry participants to identify and implement workable coordinated care and integrated payment models. Broad-based implementation of a new payment model would represent a significant transformation for us and the healthcare industry generally. The nature and timing of the evolution or transformation of the current healthcare system to coordinated care delivery and integrated payment models and value-based purchasing remain uncertain. The development of new delivery and payment systems will almost certainly take significant time and expense. Many of the alternative approaches, including those discussed above, being explored may not work or could change substantially prior to any nationwide implementations. While only a small percentage of our business currently is or is anticipated to be subject to the alternative payment models discussed above, we cannot be certain these models will not be expanded or made standard or new models will not be implemented broadly.

Additionally, as the number and types of bundling, direct contracting, and ACO models increase, the number of Medicare beneficiaries who are treated in one of the models increases. Our willingness or inability to participate in integrated payment and other alternative payment models and the referral patterns of other providers participating in those models may limit our access to Medicare patients who would benefit from treatment in inpatient rehabilitation hospitals. In an attempt to reduce costs, ACOs may seek to discourage referrals to post-acute care all together. To the extent that acute-care hospitals participating in those models do not perceive our quality of care or cost efficiency favorably compared to alternative post-acute providers, we may experience a decrease in volumes and Net operating revenues, which could adversely affect our financial position, results of operations, and cash flows. For further discussion of coordinated care and integrated payment models and value-based purchasing initiatives, the associated challenges, and our efforts to

respond to them, see the "Executive Overview—Key Challenges—Changes to Our in Medicare Reimbursement and Regulatory Requirements for Operating Environment Resulting from Healthcare Reform" IRFs" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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

In addition to the legislative and regulatory actions that directly affect our reimbursement rates or further the evolution of the current healthcare delivery system, other legislative and regulatory changes, including as a result of ongoing healthcare reform, affect healthcare providers like us from time to time. For example, the ACA provides for the expansion of the federal Anti-Kickback Law and the False Claims Act (the "FCA") that, when combined with other recent federal initiatives, are likely to increase investigation and enforcement efforts in the healthcare industry generally. Changes include increased resources for enforcement, lowered burden of proof for the government in healthcare fraud matters, expanded definition of claims under the FCA, enhanced penalties, and increased rewards for relators in successful prosecutions. CMS may also suspend payment for claims prospectively if, in its opinion, credible allegations of fraud exist. The initial suspension period may be up to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the HHS-OIG or DOJ. Any such suspension would adversely affect our financial position, results of operations, and cash flows.

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

On September 30, 2019, CMS adopted a new rule as called for by the IMPACT Act that revises the discharge planning requirements applicable to our inpatient rehabilitation hospitals. Effective November 29, 2019, CMS requires every hospital (including IRFs) to have a discharge planning process that focuses on patients' goals and preferences and on preparing them and, as appropriate, their caregivers, to be active partners in their post-discharge care. For our hospitals, this rule requires instituting standardized procedures to identify those patients who are likely to suffer adverse health consequences upon discharge in the absence of adequate discharge planning and to provide a discharge planning evaluation for such patients to ensure that appropriate arrangements for post-hospital care are made before discharge. At the time of discharge, a hospital must transfer or refer the patient, along with all necessary medical information pertaining to the patient's current course of illness and treatment, post-discharge goals of care, and treatment preferences, to the appropriate post-acute care service providers and suppliers, facilities, agencies, and other outpatient service providers and practitioners responsible for the patient's follow-up or ancillary care. Patients must also be informed of all post-acute providers in the area and, for patients enrolled in managed care organizations, in network providers must be identified if the hospital has that information. Additional information must be provided to patients who are discharged home and referred for home health agency services or who are referred to other post-acute care services. In areas where we are not part of a managed care network with significant enrollment, this discharge planning rule may negatively affect the number of patients choosing us.

In accordance with requirements adopted pursuant to the IMPACT Act, CMS implemented requirements to publish certain Medicare spending per beneficiary measures for each inpatient rehabilitation hospital in October 2016. The intent of tracking and publishing this data is to evaluate a given provider's payment efficiency relative to the efficiency of the national median provider in that provider's post-acute segment. CMS believes this measure will encourage improved efficiency and coordination of care in the post-acute setting by holding providers accountable for Medicare resource use during an episode of care. However, the measures may be misleading as they do not incorporate patient outcomes associated with those resources used. CMS has not proposed to compare payment efficiency across provider segments.

On December 14, 2020, CMS announced the proposal of a five-year review choice demonstration for inpatient rehabilitation services (the "IRF RCD"). CMS plans to implement the demonstration IRF RCD began in Alabama and then in August 2023. CMS intends to expand this demonstration to Pennsylvania, Texas, and California. The proposed California but has not yet announced the timing of this demonstration is not known, for doing so. We operate 46 47 inpatient rehabilitation hospitals (representing approximately 32% 30% of our IRF Medicare claims) in those four states. After the initial four states, CMS intends to expand the demonstration to include additional IRFs based on the Medicare Administrative Contractor to which those IRFs submit claims. Under the demonstration, IRF RCD, participating IRFs would have an initial choice between pre-claim or post-payment review of 100% of claims submitted to demonstrate compliance with applicable Medicare coverage and clinical documentation requirements. Under the pre-claim review choice, services could may begin prior to the submission of the review request and continue while the decision is being made. The pre-claim review request with required documentation must be submitted and reviewed before the final claim is submitted for payment. Under the post-payment review choice, IRFs would provide services, submit all claims for payment following their normal processes, and then submit required documentation for medical review. If 90% or more a certain percentage of its the claims reviewed are found to be valid, the IRF may then opt out of the RCD 100% review. That percentage will initially be 80% or greater for the first six-month period and eventually increases to 90% or greater in subsequent review except for cycles. In opting out, the IRF may elect spot prepayment reviews of samples consisting of 5% of total claims. The IRF RCD would not create new documentation requirements. A number claims or selective post-payment review of key details a random sample. For the review beginning in August 2023, we chose pre-claim review. As of year end 2023, we cannot be certain our claim validation rate will continue to exceed the required percentage for each review cycle, nor can we predict the impact, if any, it may have on this proposal have yet to be released, and it is not clear how or when CMS will implement this

demonstration, the collectability of our Medicare claims over its five-year term. We may ultimately experience temporary decreases in Net operating revenues and in cash flow, or we may incur costs associated with patient care for which the Medicare claim is subsequently denied, any of which could have an adverse effect on our financial position, results of operations, and liquidity.

In January 2020, the HHS-OIG announced an audit to review incentives under the IRF-PPS to discharge patients prematurely to home health agencies. Following this audit, the HHS-OIG announced in December 2021 its recommendation to CMS to establish an IRF transfer payment policy for early discharges to home health care in which the IRF would only receive a per diem rate in lieu of the full case-mix payment. The HHS-OIG estimated the policy could have reduced total Medicare payments to IRFs in 2017 and 2018 by

between 6% and 7%. The CMS proposed rule for fiscal year 2023 for the IRF-PPS included a request for comment on a potential change that could be included in future rulemaking. Based on the HHS-OIG report, CMS noted it was considering whether to modify the IRF transfer payment policy to reduce reimbursement for early discharges to home health, similar to how early discharges to acute-care hospitals, skilled nursing facilities, long-term acute-care hospitals, or another IRF, are currently treated under the IRF-PPS. In the final IRF-PPS rule for 2023, CMS acknowledged industry comments on the policy and noted those comments would be taken under advisement for future rulemaking, but neither the proposed nor the final rulemaking for fiscal year 2024 IRF-PPS made reference to a change in the IRF transfer payment policy.

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

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

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

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

The "60% Rule" is a Medicare requirement that at least 60% of an IRF's patients must have a diagnosis or qualifying comorbidity from at least one of 13 specified medical conditions that typically require intensive therapy and supervision, such as stroke, brain injury, hip fracture, certain neurological conditions, and spinal cord injury. If an IRF does not demonstrate compliance with the 60% Rule by either the presumptive method or through a review of medical records, then its classification as an IRF may be terminated by CMS causing the facility to be paid under the acute-care payment system which would result in reduced reimbursement per discharge. If one or more of our hospitals fails to demonstrate compliance with the 60% Rule and CMS re-classifies it as an acute-care hospital, our revenue and profitability may be materially and adversely affected.

In the future, changes in these laws or regulations or the manner in which they are enforced could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our hospitals, equipment, personnel, services, capital expenditure programs, operating procedures, and contractual arrangements. Those changes could also affect reimbursements as well as future compliance, training, and staffing costs.

Examples of regulatory changes that can affect our business, beyond direct changes to Medicare reimbursement rates, can be found from time to time in CMS's annual rulemaking. For example, the final rule for the fiscal year 2010 IRF-PPS implemented new coverage requirements which provided in part that a patient medical record must document a reasonable expectation that, at the time of admission to an IRF, the patient generally required and was able to participate in the intensive rehabilitation therapy services uniquely provided at IRFs. CMS has also taken the position that a patient's medical file must appropriately document the rationale for the use of group therapies, as opposed to one-on-one therapy. Beginning on October 1, 2015, CMS instituted a new data collection requirement pursuant to which IRFs must capture the minutes and mode (individual, group, concurrent, or co-treatment) of therapy by specialty. Additionally, from time to time CMS has adopted changes in the medical conditions that will presumptively count toward the 60% compliance threshold to qualify for reimbursement as an inpatient rehabilitation hospital.

Of note, the HHS-OIG periodically updates a work plan that identifies areas of compliance focus. In recent years, the HHS-OIG work plans for IRFs have focused on, among other items, the appropriate utilization of concurrent and group therapy, and adverse and temporary patient harm events, occurring in and billing error rates for IRFs. In January 2020, the HHS-OIG announced an audit to review incentives under the IRF-PPS to discharge patients prematurely to home health agencies. Following this audit, the HHS-OIG

announced in December 2021 its recommendation to CMS to establish an IRF transfer payment policy for early discharges to home health care in which the IRF would only receive a per diem rate in lieu of the full case-mix payment. The HHS-OIG estimated the policy could have reduced total Medicare payments to IRFs in 2017 and 2018 by between 6% and

7%.

In September 2018, the HHS-OIG released a report purporting to identify a high error rate (approximately 80% of claims) among inpatient rehabilitation hospital admissions in a small sample of 220 claims. Based on its findings, the HHS-OIG extrapolated the error rate to the universe of inpatient rehabilitation claims and, among other things, recommended reevaluation of the IRF-PPS. However, that HHS-OIG report involved an extremely small sample size, was not a random sample of cases, included some citations to coverage requirements that did not match actual regulations, appeared to conflate technical documentation requirements with medical necessity determinations, and was at odds with actual MAC reviews of claims during that same timeframe which found substantially lower error rates. On September 15, 2022, the HHS-OIG updated its work plan to conduct a nationwide audit of IRF claims in order to determine the extent to which CMS could clarify the Medicare IRF claim payment criteria. The HHS-OIG expects to issue a report on this in fiscal year 2024. An HHS-OIG work plan, audit or similar future efforts could result in proposed changes to the payment systems for providers or increased denials of Medicare claims for patients notwithstanding the referring physicians' judgment that treatment is appropriate.

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

On March 4, 2013, we received document subpoenas from an office of the HHS-OIG addressed to four of our hospitals. On April 24, 2014, we received document subpoenas relating to an additional seven of our hospitals. Those subpoenas requested documents, including copies of patient medical records, related to reimbursement claims submitted during periods ranging from January 2008 through December 2013. The associated investigation led by DOJ was based on whistleblower claims of alleged improper or fraudulent claims submitted to Medicare and Medicaid and requested documents and materials relating to practices, procedures, protocols and policies of certain pre- and post-admissions activities at these hospitals including marketing functions, pre-admission screening, post-admission physician evaluations, patient assessment instruments, individualized patient plans of care, and compliance with the Medicare 60% rule. Under the Medicare rule commonly referred to as the "60% Rule," 60% or more of the patients of an IRF must have at least one of a specified list of medical conditions in order to be reimbursed at the IRF-PPS payment rates, rather than at the lower acute-care hospital payment rates. We settled the DOJ investigation, together with the related *qui tam* or whistleblower lawsuits, in 2019 for a total payment of \$48 million, and we expressly denied any wrongdoing. In return for the settlement payment, the plaintiffs dismissed with prejudice their pending *qui tam* claims, and DOJ provided Encompass Health and all its subsidiaries with a release from civil liability.

Although we have invested, and will continue to invest, substantial time, effort, and expense in implementing and maintaining training programs as well as internal controls and procedures designed to ensure regulatory compliance, we have in the past been, and could in the future be, required to return portions of reimbursements for discharges alleged after the fact to have not been appropriate under the applicable reimbursement rules and change our patient admissions practices going forward. We could also be subjected to other liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our hospitals, and (3) exclusion or suspension of one or more of our hospitals from participation in the Medicare, Medicaid, and other federal and state healthcare programs, which, if lengthy in duration and material to us, could potentially trigger a default under our credit agreement or debt instruments.

Because Medicare comprises a significant portion of our *Net operating revenues*, failure to comply with the laws and regulations governing the Medicare program and related matters, including anti-kickback and anti-fraud requirements, could materially and adversely affect us. As discussed above in connection with the ACA, the federal government has in the last couple of years made compliance enforcement and fighting healthcare fraud top priorities. In the past few years, DOJ and HHS as well as federal lawmakers have significantly increased efforts to ensure strict compliance with various reimbursement related regulations as well as combat healthcare fraud. DOJ has pursued and recovered record amounts based on alleged healthcare fraud. The increased enforcement efforts have frequently included aggressive arguments and interpretations of laws and regulations that pose risks for all providers. For example, the federal government has increasingly asserted that incidents of

erroneous billing or record keeping may represent violations of the FCA. Human error and oversight in record keeping and documentation, particularly where those activities are the responsibility of non-employees, are always a risk in business, and healthcare providers and independent physicians are not immune to this risk. Additionally, the federal government has been willing to challenge the medical judgment of independent physicians in determining issues such as the medical necessity of a given treatment plan.

Settlements of alleged violations or imposed reductions in reimbursements, substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows. Even the assertion of a violation, depending on its nature, could have a material adverse effect upon our stock price or reputation and could cost us significant time and expense to defend.

The use of sub-regulatory guidance, statistical sampling, and extrapolation by CMS, Medicare contractors, HHS-OIG, and DOJ to deny claims, expand enforcement claims, and advocate for changes in reimbursement policy increases the risk that we could experience reduced revenue, suffer penalties, or be required to make significant changes to our operations.

Because Medicare comprises a significant portion of our *Net operating revenues*, failure to comply with the laws and regulations governing the Medicare program and related matters, including anti-kickback and anti-fraud requirements, could materially and adversely affect us. Our ability to operate in a compliant manner impacts the claims denials, compliance enforcement, and regulatory processes discussed in other risks above. The federal government's reliance on sub-regulatory guidance, such as handbooks, FAQs, internal memoranda, and press releases, presents a unique challenge to compliance efforts. Such sub-regulatory guidance purports to explain validly promulgated regulations but often expands or supplements existing regulations without constitutionally and statutorily required notice and comment and other procedural protections. Without procedural protections, sub-regulatory guidance poses a risk above and beyond reasonable efforts to follow validly promulgated regulations, particularly when the agency or MAC seeking to enforce such sub-regulatory guidance is not the agency or MAC

issuing the guidance and therefore not as familiar with the substance and nature of the underlying regulations or even clinical issues involved.

On August 6, 2020, CMS issued a proposed rule invoking a rarely used retroactive-rulemaking authority to support CMS's application of a Medicare payment methodology that the U.S. Supreme Court found to be procedurally improper in *Azar v. Allina Health Services* in 2019. CMS' invocation of its retroactive-rulemaking authority in response to this Supreme Court decision is an unfavorable precedent for providers because it demonstrates a willingness by CMS to revive adverse reimbursement actions after those actions are deemed deficient on administrative procedural grounds.

Additionally, the federal government is increasingly turning to statistical sampling and extrapolation to expand claims denials and enforcement efforts and advocate for changes in reimbursement policy. Through sampling and extrapolation, the government takes a review of a small number of reimbursement claims and generalizes the results of that review to a much broader universe of claims, which can result in significant increases in the aggregate number and value of claims at issue. Increasing use of extrapolation can be found in payment review audits, such as those conducted by RACs and UPICs. In addition to payment reviews, government agencies may allege compliance violations, including submission of false claims, based on sampling and extrapolation and seek to change reimbursement policy. For example, the HHS-OIG issued a report in September 2018 purporting to identify a high error rate (approximately 80% of claims) among inpatient rehabilitation hospital admissions in a small sample of 220 claims. Based on its findings, the HHS-OIG extrapolated the error rate to the universe of inpatient rehabilitation claims and, among other things, recommended reevaluation of the IRF-PPS. However, the HHS-OIG report involves an extremely small sample size, is not a random sample of cases, includes incorrect references to coverage requirement regulations, appears to conflate technical documentation requirements with medical necessity determinations, and is at odds with actual MAC reviews of claims during that same timeframe which found substantially lower error rates. Notwithstanding the technical statistical flaws that can arise in sampling small groups of claims and the extremely problematic nature of extrapolation in the context of individualized decisions of medical judgment as some courts have noted, sampling and extrapolation pose a growing risk to healthcare providers in the form of more significant claims of overpayments and increased legal costs to defend against these problematic regulatory practices. In a recent federal court case, the Fifth Circuit Court of Appeals ruled in favor of CMS and affirmed the application of extrapolation errors identified in a sample of claims to support larger claims for overpayment. As discussed under **"Reimbursement Risks"** above, we are currently challenging, among other things, the use of extrapolation in a 2017 UPIC audit. Any associated loss of revenue or increased legal costs could materially and adversely affect our financial position, results of operations, and cash flows.

Efforts to comply with regulatory mandates to increase the use of electronic health data and health system interoperability may lead to enforcement and negative publicity which could adversely affect our business.

For many years, a primary focus of the healthcare industry has been to increase the use of electronic health records, or "EHR," and the sharing of the health data among providers, payors and other members of the industry. The federal government has been a significant driver of that initiative through rules and regulations. In 2009, as part of the Health Information Technology for Economic and Clinical Health ("HITECH") Act, the federal government set aside \$27 billion of incentives for acute-care hospitals and other providers, not including IRFs, to adopt EHR systems. In 2020, CMS and HHS's Office of the National Coordinator for Health IT ("ONC") finalized policy changes implementing interoperability, information blocking, and patient access provisions of the 21st Century Cures Act and supporting the MyHealthEData initiative, designed to allow patients to access their health claims information electronically through the application of their choosing. The companion rules will transform the way in which healthcare providers, health information technology developers, health information exchanges/health information networks ("HIEs/HINs"), and health plans share patient information. For example, the ONC rule prohibits healthcare providers, health IT developers, and HIEs/HINs from engaging in practices that are likely to interfere with, prevent, materially discourage, or otherwise inhibit the access, exchange or use of electronic health information, also known as "information blocking." The ONC rule also requires regulated actors to respond to requests for electronic health information in the content and manner requested, with some exceptions. Enforcement of ONC's and CMS' new health information access, exchange, and use standards promulgated in the 2020 rules began in 2021, and noncompliance can result in civil monetary penalties, exclusion from participation in federal health care programs and other appropriate "disincentives" that have not yet been identified by the agencies. "disincentives," including reductions in Medicare reimbursements. The HHS-OCR United States Department of Health and Human Services Office of Civil Rights ("HHS-OCR") patient right of access initiative, which began in late 2019 and has similar objectives to the new ONC initiative, such as promoting and enforcing patient access to health information, has led to dozens of settlements of enforcement actions.

The goals of increased use of electronic health data and interoperability are improved quality of care and lower healthcare costs generally. However, increased use of electronic health data and interoperability inherently magnifies the risk of security breaches involving that data and information systems used to share it, which risk is discussed under "Other Operational Risks" below. Additionally, interoperability and the sharing of health information have received increasingly negative publicity. There is at least one well publicized instance where organizations received significant negative publicity for sharing health data despite having appeared to comply in all respects with privacy law. There can be no assurance that our efforts to improve the care we deliver and to comply with the law through increasing use of electronic data and system interoperability will not receive negative publicity that may materially and adversely affect our ability to get patient referrals or enter into joint ventures with other providers or may lead to greater regulatory scrutiny. Negative publicity may also lead to federal or state regulation that conflicts with current federal policy and interferes with the healthcare industry's efforts to improve care and reduce costs through use of electronic data and interoperability.

If any of our hospitals fail to comply with the Medicare enrollment requirements or conditions of participation, that hospital could be terminated from the Medicare program.

Each of our hospitals must comply with extensive enrollment requirements and conditions of participation for the Medicare program. If any of our hospitals fail to meet any of the Medicare enrollment requirements or conditions of participation, we may receive a notice of deficiency from the applicable survey agency or contractor, as applicable. If that hospital then fails to institute an acceptable plan of correction and correct the deficiency within the applicable correction period, it could lose the ability to bill Medicare. A hospital could be terminated from the Medicare program if it fails to address the deficiency within the applicable correction period. If CMS terminates one hospital, it may increase its scrutiny of others under common control. From time to time, we have individual hospitals that receive notices of deficiency. To date, we have addressed those as they have arisen, and we have not experienced a termination.

On September 5, 2019, in September 2019, CMS released a final rule that will implement over a period of time adding additional provider enrollment provisions and create creating several new revocation and denial authorities in an attempt to bolster CMS' efforts to prevent waste, fraud and abuse. A few provisions of this new rule could significantly increase the complexity of filing enrollment applications for all of our provider entities, including increased burden related to tracking and identifying required reporting data from our joint venture partners. This rule requires Medicare and Medicaid providers and suppliers to disclose any current or previous (in the last five years), direct or indirect

affiliation with a provider or supplier that has ever had a disclosable event. A disclosable event is any uncollected debt to Medicare or Medicaid, payment suspension under a federal health care program, denial, revocation or termination of enrollment (even if it is under appeal), or exclusion by the HHS-OIG from participation in a federal health care program. The rule also broadens the definition of an affiliation, including many indirect ownership or control situations such as ownership interests in a publicly traded company. If CMS determines an affiliation with a disclosable event poses an undue risk of fraud, waste or abuse, then the provider reporting that affiliation may be subject to exclusion from Medicare. Currently, information regarding uncollected debt, payment suspensions and enrollment actions are not generally available, so obtaining such information on affiliates could prove difficult or impossible in some situations. **CMS intends to issue further guidance on the level of effort it expects providers to undertake to uncover information on their affiliates.**

Under this new rule, CMS may revoke a provider's Medicare enrollment, including all of the provider's locations, if the provider bills for services performed at, or items furnished from, one location that it knew or should have known did not comply with Medicare enrollment requirements, including making the disclosures discussed above. CMS has the ability to prevent applicants from enrolling in the program for up to three years if a provider is found to have submitted false or misleading information in its initial enrollment application. Additionally, CMS can now block providers and suppliers who are revoked from re-entering the Medicare program for up to 10 years. CMS may also revoke a provider's enrollment if it fails to report on a timely basis any change in ownership or control, revocation or suspension of a federal or state license or certification, or any other change in its enrollment data.

Any termination of one or more of our hospitals from the Medicare program for failure to satisfy the enrollment requirements or conditions of participation could materially adversely affect our business, financial position, results of operations, and cash flows.

If we are found to have violated applicable privacy and security laws and regulations or our contractual obligations, we could be subject to sanctions, fines, damages and other civil or criminal penalties, which could increase our liabilities, harm our reputation and have a material adverse effect on our business, financial position, results of operation and liquidity.

There are a number of federal, **state** and **state local** laws, rules and regulations, as well as contractual obligations, relating to the protection, collection, storage, use, retention, security, disclosure, transfer and other processing of confidential, sensitive and personal information, including **certain patient protected** health information ("PHI"), such as patient **medical** records. There are also foreign laws, rules and regulations that address these matters and have extraterritorial application. We do not believe we are currently subject to these non-United States regulatory regimes but that could change in the future. Existing laws and regulations are constantly evolving, and new laws and regulations that apply to our business are being enacted at every level of government in the United States. In many cases, these laws and regulations apply not only to third-party transactions, but also to transfers of information between or among us, our affiliates and other parties with whom we conduct business. These laws and regulations may be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible that they will be interpreted and applied in ways that may have a material adverse effect on our business. We monitor legal developments in data privacy and security regulations at the local, state and federal level, however, the regulatory framework for data privacy and security worldwide is continuously evolving and developing and, as a result, interpretation and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future.

The management of **protected health information ("PHI") PHI** is subject to several regulations at the federal level, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the HITECH Act. The HIPAA privacy and security regulations protect medical records and other **personal health information PHI** by limiting their use and disclosure, giving individuals the right to access, amend, and seek accounting of their own health information, and limiting most uses and disclosures of health information to the minimum amount reasonably necessary to accomplish the intended purpose. The HITECH Act strengthened HIPAA enforcement provisions and authorized state attorneys general to bring civil actions for HIPAA violations. It also permits HHS to conduct audits of HIPAA compliance and impose significant civil monetary penalties even if we did not know and could not reasonably have known about a violation. If we are found to have violated the HIPAA privacy or security regulations or other federal or state laws protecting the confidentiality of patient health or personal information, including but not limited to the HITECH Act, we could be subject to litigation, sanctions, fines, damages and other civil or criminal penalties, which could increase our liabilities, harm our reputation, and have a material adverse effect on our business, financial position, results of operations and liquidity.

In December 2020, HHS-OCR proposed a new rule that would modify HIPAA regulations. According to HHS-OCR, the proposed rule is intended to promote care coordination and value-based care. The proposed changes to the HIPAA rules also provide for strengthening individuals' rights to access their own health information, including electronic information; improving information sharing for care coordination and case management for individuals; facilitating greater family and caregiver involvement in the care of individuals experiencing emergencies or health crises; enhancing flexibilities for disclosures in emergency or threatening circumstances, such as the opioid and COVID-19 public health emergencies; and reducing administrative burdens on HIPAA covered healthcare providers and health plans, while continuing to protect individuals' health information privacy interests. Although one of the stated purposes of the proposed rules is to reduce healthcare providers burdens, providers would have to engage in a number of activities to come into compliance if the changes are finalized, including changing policies and procedures, changing patient privacy notices and business associate agreements and training workforce members in the new requirements.

Numerous other federal and state laws protect the confidentiality, privacy, availability, integrity and security of PHI. **For example, various In recent years, many states including Virginia, California, Massachusetts, Florida, Utah, and Colorado, have implemented privacy laws and regulations that impose restrictive requirements regulating the use and disclosure of personally identifiable information, including PHI, and many other states have proposed similar laws and regulations, which may include PHI.** These laws in many cases are more restrictive or impose more obligations than, and may not be preempted by, the HIPAA rules, apply to employees and business contacts as well as patients, and may be subject to new and varying interpretations by courts and government agencies, creating complex compliance issues and potentially exposing us to additional expense, adverse publicity and liability. We **also** expect that there will continue to be new laws, regulations and industry standards concerning privacy, data protection and information security proposed and enacted in various jurisdictions. The U.S. Congress has considered, but not yet passed, several comprehensive federal data privacy bills over the past few years, such as the CONSENT Act, which was intended to be similar to the landmark 2018 European Union General Data Protection Regulation. We expect federal data privacy laws to continue to evolve.

In the absence of a comprehensive federal privacy law, there is increased focus at the state and local level on regulating the collection, storage, use, retention, security, disclosure, transfer and other processing of confidential, sensitive and personal information. In recent years, we have seen significant changes to data privacy regulations across the United States. New legislation proposed or enacted will continue to shape the data privacy environment. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to confidential, sensitive and personal information than federal, international or other state laws, and such laws may conflict with each other, which significantly complicates compliance efforts.

In addition, all 50 U.S. states and the District of Columbia have enacted breach notification laws that may require us to notify patients, employees, or third parties, regulators and the general public in the event of unauthorized access to or disclosure of personal or confidential information experienced by us or our service providers. These laws are not consistent, and compliance in the event of a widespread data breach is difficult and may be costly. Moreover, states frequently amend existing laws, requiring attention to changing regulatory requirements.

We also may be contractually required to notify patients or other counterparties of a security breach. Although we have contractual protections with many of our service providers, any actual or perceived security breach could harm our reputation and brand, expose us to potential liability or require us to expend significant resources on data security and in responding to any such actual or perceived breach, breach, including defending class action litigation. Any contractual protections we have from our service providers may not be sufficient to adequately protect us from any such liabilities and losses, and we may be unable to enforce any such contractual protections.

In addition to government regulation, privacy advocates and industry groups have and may in the future propose self-regulatory standards from time to time. These and other industry standards may legally or contractually apply to us, or we may elect to comply with such standards.

Complying with these various laws, rules, regulations and standards could cause us to incur substantial costs that are likely to increase over time, require us to change our business practices in a manner adverse to our business, divert resources from other initiatives and projects, and restrict the way products and services involving data are offered, all of which may have a material adverse effect on our business. Given the rapid development of cybersecurity and data privacy laws, we expect to encounter inconsistent interpretation and enforcement of these laws and regulations, as well as frequent changes to these laws and regulations which may expose us to significant penalties or liability for noncompliance, the possibility of fines, lawsuits (including class action privacy litigation), regulatory investigations, criminal or civil sanctions, audits, adverse media coverage, public censure, other claims, significant costs for remediation and damage to our reputation, or otherwise have a material adverse effect on our business and operations. Any allegations of a failure to adequately address data privacy or security-related concerns, even if unfounded, or to comply with applicable laws, regulations, standards and other obligations relating to data privacy and security, could result in additional cost and liability to us, damage our relationships with patients and business partners and have a material adverse effect on our business.

We make public statements about our use and disclosure of personal information through our privacy policies, information provided on our website and press statements. Although we endeavor to comply with our public statements and documentation about patient privacy, we may at times fail to do so or be accused of having failed to do so. The publication of our privacy policies and other statements that provide promises and assurances about data privacy and security can subject us to potential government or legal action if they are found to be deceptive, unfair or misrepresentative of our actual practices. Moreover, from time to time, concerns may be expressed about whether our products and services or business practices compromise the privacy of patients and others. Any concerns about our data privacy and security practices, even if unfounded, could damage the reputation of our businesses, discourage potential patients from seeking our products and services and have a material adverse effect on our business.

We are subject to federal, state and local laws and regulations that govern our employment practices, including minimum wage, overtime, living wage and paid-time-off requirements. Failure to comply with these laws and regulations, or changes to these laws and regulations that increase our employment-related expenses, could adversely impact our operations.

We are required to comply with all applicable federal, state and local laws and regulations relating to employment, including occupational safety and health requirements, minimum staffing, wage and hour, overtime and other compensation requirements, employee benefits and other leave and sick pay requirements, proper classification of workers as employee or independent contractors, and immigration and equal employment opportunity laws, among others. These laws and regulations can vary significantly among jurisdictions, can change, and can be highly technical and involve strict liability for noncompliance with a seemingly mundane technical detail. Costs and expenses related to these requirements are a significant operating expense and may increase as laws and regulations change. From time to time, we have been, and expect to continue to be, subject to regulatory proceedings and private litigation, including putative class action lawsuits, concerning our application of various laws, rules and regulations governing employment practices, including wage and hour claims. Some of these actions involve large demands, as well as substantial defense costs. Any failure to comply with these employment-related legal requirements can result in significant penalties or litigation exposure and could have a material adverse effect on our business.

business, financial position, results of operations, and cash flows.

The Hospital Pricing Transparency Rule pricing transparency and similar consumer protection rules could adversely affect our business and results of operations.

Effective on January 1, 2021, the hospital price transparency rule requires hospitals to publish on the internet in a consumer-friendly format their standard charges based on negotiated rates for all items and services and up to 300 common shoppable services. Shoppable services are those routinely provided in non-urgent situations and include those ancillary services that customarily accompany the primary service being provided. The charges for an individual item or service to be published include:

- gross charge (charge as reflected on a hospital's chargemaster, absent any discounts),
- payer-specific negotiated charge (charge negotiated with a third party payer for an item or service),
- de-identified minimum negotiated charge (lowest charge negotiated with all third-party payers),
- de-identified maximum negotiated charge (highest charge negotiated with all third-party payers), and
- discounted cash price (charge that applies to an individual who pays cash).

Effective July 1, 2024, CMS finalized a requirement for hospitals to display their standard charge information by conforming to a CMS template layout, data specifications, and data dictionary, and to improve accessibility of the data on their websites. The hospital will be required to encode its standard charge information in the CMS templates and conform with other specified technical instructions that will be made available in a data dictionary. This transparency rule imposes significant initial and ongoing burdens on hospitals to track and publish various billing information. In the event a hospital fails to comply with the new requirements and does not complete the prescribed corrective action, CMS may impose a civil monetary penalty of between \$300 and \$5,500 per day. The maximum penalty for violations is more than \$2 million per hospital.

Effective January 1, 2022, the federal No Surprises Act imposes additional price transparency requirements, including requiring hospitals to send uninsured or self-pay patients a good faith estimate of the expected charges for treatments, including for attending physicians billing separately, prior to the scheduled stay or upon request. If an uninsured or self-pay patient receives a bill that is substantially greater than the expected charges in the estimate or the provider furnishes an item or service that was not included in the estimate, the patient may initiate a patient-provider dispute resolution process established by regulation. Additionally, HHS may impose penalties of up to \$10,000 per violation of the No Surprises Act.

Many states have also passed or are debating legislation establishing price transparency websites, or mandating that health plans or hospitals make price information available to consumers. The consumers, or prohibiting practices associated reporting obligations with surprise billing. These requirements and restrictions vary from state to state. We cannot predict what the adverse effects, if any, of this new CMS rule federal or any state law pricing transparency and other consumer protection laws or regulation, regulations, such as the effect on relations with managed care payors and referral sources, may be for us. The maximum penalty for violations is more than \$2 million per hospital, so our Our failure to maintain compliance with this rule these rules could adversely affect our financial position, results of operations, and cash flows.

Other Operational Risks

The proper function, availability, and security of our information systems are critical to our business and failure to maintain proper function, availability, or security of our information systems or protect our data against unauthorized access could have a material adverse effect on our business, financial position, results of operations, and cash flows.

We are and will remain dependent on the proper function, availability and security of our and third-party information systems, including our electronic clinical information system, referred to as ACE-IT, which plays a substantial role in the operations of the hospitals, and the cloud service providers we directly and indirectly use. We undertake measures to protect the safety and security of our information systems and the data maintained within those systems, and we periodically test the adequacy of our security, business continuity, and disaster recovery measures. We have implemented administrative, technical and physical controls on our systems and devices in an attempt to prevent unauthorized access to that data, which includes patient information subject to the protections of HIPAA and the HITECH Act and other sensitive information. For additional discussion of these laws see Item 1, *Business*, "Regulation," "Regulation" and our cybersecurity program see Item 1C, *Cybersecurity*.

We expend significant capital to protect against the threat of security breaches, including cyber attacks, email phishing schemes, malware and ransomware. Substantial additional expenditures may be required to respond to and remediate any problems caused by breaches, including the unauthorized access to or theft of patient data and protected health information stored in our information systems and the introduction of computer malware or ransomware to our systems. We also provide our employees annual training and regular reminders on important measures they can take to prevent breaches and other cyber threats, including phishing schemes. We routinely identify attempts to gain unauthorized access to our systems. However, given the rapidly evolving nature and proliferation of cyber threats, there can be no assurance our training and network security measures or other controls will detect, prevent or remediate security or data breaches in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations. For example, it has been widely reported that many well-organized international interests, in certain cases with the backing of sovereign governments, are targeting the theft of patient information and the disruption of healthcare services through the use of advanced persistent threats and ransomware attacks. In recent years, several a number of hospitals and hospital systems have reported being victims of ransomware attacks in which they lost access to their systems, including clinical systems, during the course of the attacks. Large, national healthcare systems have reported ransomware attacks that forced their facilities to operate without access to information systems for some time and, to some extent, inhibited their ability to admit patients. We are likely to face attempted attacks in the future. Accordingly, we may be vulnerable to losses associated with the improper functioning, breach or unavailability of our and our vendors' information systems, including systems used in acquired operations, and third-party systems we use.

Threat actors continue to attempt to exploit commonly used software and services to gain remote access to a large number of the information systems of the businesses using the software and services. For example, in both 2021 and 2022, Microsoft reported a vulnerability within its widely deployed email exchange services. In December 2021, widespread exploitation of a vulnerable logging software installed within commonly used applications, services, and websites gave threat actors the ability to execute code remotely and potentially take control of affected systems. In these instances, we conducted forensics investigations May 2023, an international ransomware group began exploiting a vulnerability in a prevalent enterprise file transfer tool allowing the group to steal data from thousands of our systems containing these software applications using all the indicators of compromise provided by leading security experts. Our forensic analysis to date has discovered no indicators of compromise. government, public, and business organizations worldwide.

Generally, we, working with our cyber security cybersecurity vendors, attempt to monitor various channels and sources to identify vulnerabilities and threats in both third-party vendor software and services as well as our own systems and to mitigate the risks promptly. We also routinely work with industry and governmental cyber security cybersecurity partners to identify and combat cyber threats, which are particularly acute in the healthcare industry. When we become aware of threats, we undertake forensic investigations of our systems using all the indicators of compromise identified by leading security experts. Our forensic analysis to date has discovered no indicators of compromise. There can be no assurance that we will identify or adequately mitigate all threats to our systems, particularly in light of the number of well-funded and organized threat actors working to attack healthcare providers, providers and the possibility of zero-day vulnerabilities and exploits yet to be identified.

To date, we are not aware of having experienced a material compromise from a cyber breach or attack. However, given the increasing cyber security cybersecurity threats in the healthcare industry, there can be no assurance we will not experience business interruptions; data loss, ransom, misappropriation or corruption; corruption, theft, or misuse of proprietary data, patient or other personally identifiable information; or litigation, investigation, or regulatory action related to any of those, any of which could have a material adverse effect on our patient care, ability to admit patients, financial position, and results of operations and harm our business reputation.

A compromise of our network security measures or other controls, or of those businesses or vendors with whom we interact, including our direct and indirect cloud service providers, which results in confidential information being accessed, obtained, damaged or used by unauthorized persons, or unavailability of systems necessary to the operation of our business, could impact patient care, harm our reputation, and expose us to significant remedial costs as well as regulatory actions (fines and penalties) and claims from patients, financial institutions, regulatory and law enforcement agencies, and other persons, any of which could have a material adverse effect on our business, financial position, results of operations and cash flows. The nature of our business requires the sharing of protected health information and other sensitive information among employees and healthcare partners, many of whom carry and access portable devices outside of our physical locations, which in turn increases the risk of loss, theft or inadvertent disclosure of that information. Moreover, a security breach, or threat thereof, could require that we expend significant resources to repair or improve our information systems and infrastructure and

could distract management and other key personnel from performing their primary operational duties. In the case of a material breach or cyber attack, the associated expenses and losses may exceed our current insurance coverage for such events. Some adverse consequences are not insurable, such as reputational harm and third-party business interruption. Failure to maintain proper function, security, or availability of our information systems or protect our data against unauthorized access **could have a material adverse effect on our business, financial position, results of operations, and cash flows.** In addition, costs, unexpected problems, and interruptions associated with the implementation or the **failure transition to new systems or technology or with adequate support of one those systems or more of our key partners, vendors, or other counterparties to do these things, technology across numerous hospitals** could have a material adverse effect on our business, financial position, results of operations, and cash flows.

The failure of our business partners and vendors to maintain the proper function, availability, or security of their information systems or to protect against unauthorized access could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Our business involves sharing of protected health information and other sensitive information among employees and with third-parties, including acute-care hospitals, which are typically referral sources, healthcare service and information vendors, and the federal government, our primary payor. In fact, federal laws and regulations require interoperability among healthcare entities in many circumstances. The use by our employees and healthcare partners of portable devices to facilitate patient care increases the risk of loss, theft or inadvertent disclosure of that information. A compromise of the network security measures or other controls of those businesses, vendors, or governmental agencies and their contractors with whom we interact, including our direct and indirect cloud service providers and CMS, which results in confidential information being accessed, obtained, damaged or used by unauthorized persons, or unavailability of systems necessary to the operation of our business, could impact patient care, claims billing and collection, harm our reputation, and expose us to significant remedial costs as well as regulatory actions (fines and penalties) and claims from patients, financial institutions, regulatory and law enforcement agencies, and other persons, any of which could have a material adverse effect on our business, financial position, results of operations and cash flows.

ACE-IT, our enterprise-level clinical information system, is subject to a licensing, implementation, technology hosting, and support agreement with Oracle Cerner Corporation. In addition, we have a number of partners and non-software vendors with whom we share data in order to provide patient care and otherwise operate our business. **In fact, federal laws and regulations require interoperability among healthcare entities in many circumstances.** Our inability, or the inability of our partners or vendors, to continue to **secure, maintain and upgrade information systems, software, and hardware** could disrupt or reduce the efficiency of our operations, including affecting patient care. **On February 21, 2024, Change Healthcare, a subsidiary of UnitedHealth Group that acts as an intermediary for processing of our payment claims for all payors, notified us of a cybersecurity incident affecting some of its systems.** To date, we have not identified any compromise or unauthorized access of our systems or networks. The Change Healthcare incident has not affected our operations, except the submission of payment claims. In the event the Change Healthcare service is not restored in a timely fashion, we may experience payment collection delays as we turn to alternative channels to submit claims. For additional discussion of potential impacts from the Change Healthcare incident, see the "Liquidity and Capital Resources" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*. A security breach or other system failure involving Oracle Cerner, Change Healthcare, or another third-party with whom we share data or system connectivity could compromise

our patient data or proprietary information or disrupt our ability to **operate. In addition, costs, unexpected problems, and interruptions associated with the implementation or transition to new systems or technology or with adequate support operate, including submitting claims for payment, any of those systems or technology across numerous hospitals which** could have a material adverse effect on our business, financial position, results of operations and cash flows.

We face intense competition for patients from other healthcare providers.

We operate in the competitive, fragmented inpatient rehabilitation industry. Although we are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated, revenues, and number of hospitals, in any particular market we may encounter competition from local or national entities with longer operating histories or other competitive advantages. For example, acute-care hospitals, including those owned and operated by large public companies, may choose to expand or begin offering post-acute rehabilitation services. Given that approximately 91% of our hospitals' **referrals admissions** come from acute-care hospitals, that increase in competition could materially and adversely affect our admission referrals in the related markets. There are also large acute-care systems that may have more resources available to compete than we have. Other providers of post-acute care services may attempt to become competitors in the future. For example, **some nursing homes including at least one public company operator, have been marketing frequently market** themselves as offering certain rehabilitation services, even though nursing homes are not required to offer the same level of care, and are not licensed, as hospitals.

Competing companies may offer newer or different services from those we offer or have better relationships with referring physicians and may thereby attract patients who are presently, or would be candidates for, receiving our inpatient rehabilitation services. The other public companies and large health insurance companies expanding into post-acute care have or may obtain significantly greater marketing and financial resources or other advantages of scale than we have or may obtain. Other companies, including hospitals and other healthcare organizations that are not currently providing competing services, may expand their services to include inpatient rehabilitation services.

There can be no assurance this competition, or other competition which we may encounter in the future, will not adversely affect our business, financial position, results of operations, or cash flows. In addition, from time to time, there are efforts in states with certificate of need ("CON") laws to weaken those laws, which could potentially increase competition in those states. For example, in **2019, Florida 2023, South Carolina** enacted legislation to repeal CON regulations for several provider types, including IRFs. **Effective July 1, 2021, new IRFs can operate without first obtaining a CON.** Conversely, competition and statutory procedural requirements in some CON states may inhibit our ability to expand our operations in those states. For a breakdown of the CON status of the states and territories in which we have operations, see Item 2, *Properties*.

If we are unable to provide a consistently high quality of care, our business will be adversely impacted.

Providing quality patient care is fundamental to our business. We believe hospitals, physicians and other referral sources refer patients to us in large part because of our reputation for delivering quality care. Clinical quality is becoming increasingly important within our industry. Effective October 2012, Medicare began to impose a financial penalty upon acute-care hospitals that have excessive rates of patient readmissions within 30 days from hospital discharge. We believe this regulation provides a competitive advantage to post-acute providers who can differentiate themselves based upon quality, particularly by achieving low acute-care hospital readmission rates and by implementing disease management programs designed to be responsive to the needs of patients served by referring hospitals. If we should fail to attain our goals regarding acute-care hospital readmission rates and other quality metrics, we expect our ability to generate referrals would be adversely impacted, which could have a material adverse effect upon our business and consolidated financial condition, results of operations, and cash flows.

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

Our success depends in large part on referrals from physicians, hospitals, case managers and other patient referral sources in the communities we serve. By law, referral sources cannot be contractually obligated to refer patients to any specific provider. However, there can be no assurance that individuals will not attempt to steer patients to competing post-acute providers or otherwise limit our access to potential referrals. The establishment of joint ventures or networks between referral sources, such as acute-care hospitals, and other post-acute providers may hinder patient referrals to us. The growing emphasis on integrated care delivery across the healthcare continuum increases that risk.

Our growth and profitability depend on our ability to establish and maintain close working relationships with patient referral sources and to increase awareness and acceptance of the benefits of inpatient rehabilitation care by our referral sources and their patients. We cannot provide assurance that we will be able to maintain our existing referral source relationships or that we will be able to develop and maintain new relationships in existing or new markets. Our loss of, or failure to maintain, existing relationships, **including because of closures of referral sources in concentrated markets**, or our failure to develop new relationships could adversely affect our ability to grow our business and operate profitably.

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

We may selectively pursue strategic acquisitions of, and we frequently pursue joint ventures with, other healthcare providers. We may face limitations on our ability to identify sufficient joint venture, acquisition or other development targets and to complete those transactions to meet goals.

In the inpatient rehabilitation industry, the costs of constructing new hospitals are increasing faster than reimbursement rates and the general inflation rate. In many states, the need to obtain governmental approvals, such as a CON or an approval of a change in ownership, may represent a significant obstacle to completing transactions. Additionally, in states with CON laws, it is not unusual for third-party providers to challenge the initial awards of CONs, the increase in the number of approved beds in an existing CON, or the expansion of the area served, and the adjudication of those challenges and related appeals may take many years.

Changes in federal laws or regulations may also materially adversely impact our ability to acquire hospitals or open *de novo* hospitals. Under the Biden administration, DOJ has announced its intention to be much more aggressive in challenging mergers and acquisitions it believes present anti-trust concerns. In a speech in January 2022, the head of DOJ's anti-trust enforcement stated that negotiated settlements are frequently inadequate remedies and that DOJ needs to be more aggressive in its litigation to block business combinations. He also stated that litigation is preferable to settlements because it represents a chance to extend legal precedent for what constitutes unlawful anticompetitive activity. Increased DOJ enforcement of antitrust laws will likely increase the time, effort and expense associated with acquisitions and may ultimately make it less likely to consummate acquisitions. **With respect to healthcare combinations specifically, President Biden issued an Executive Order on July 9, 2021 that encourages DOJ and the Federal Trade Commission to review and revise their merger guidelines for hospitals to ensure patients are not harmed by such mergers.**

These factors and others may delay, or increase the cost to us associated with, any acquisition or *de novo* development or prevent us from completing one or more acquisitions or *de novo* developments.

Acute-care hospitals that participate in joint ventures with us may experience operational or financial challenges that, in turn, affect our joint venture inpatient rehabilitation hospitals.

We currently have 63 inpatient rehabilitation hospitals that are owned and operated as joint ventures with acute-care hospitals. In substantially all of these joint ventures, our co-owners are nonprofit hospitals or health systems. The healthcare provider operating environment has become increasingly challenging in recent years because of inflationary pressures, (particularly labor costs), reimbursement pressures, tight credit markets with increasing interest rates, and other operational challenges such as clinical staffing shortages and shifts of some types of care delivery away from the acute-care setting. The continuation of some or all of these conditions together with general weakening economic conditions and increasing federal and state limitations on strategic combinations could subject our joint venture partners to significant operational and financial pressures.

The financial and operational strength, access to credit, and general liquidity of a joint venture partner may affect the growth or performance for the associated inpatient rehabilitation hospital, and in a few instances in the past has done so. Our joint venture partners may be, and in the past some have been, unable or unwilling, at the time of our request, to make capital contributions to fund their proportional shares of operating or capital expenditures that we believe are in the best interest of the joint ventures. The delay or inability of a joint venture to undertake a funding expenditure could affect the growth or performance of that hospital. Should a joint venture partner close its acute-care hospital operating in the market with the joint venture inpatient rehabilitation hospital, we would likely suffer a significant referral disruption or decrease in that market, particularly in smaller markets where the acute-care hospital that is closing is the primary or only hospital.

We have a small number of inpatient rehabilitation hospitals that are located within our joint venture partner's acute-care hospital. In January 2024, we received notice that one of our joint venture partners intends to close its acute-care hospital in which the joint venture inpatient rehabilitation hospital is located. We closed that joint venture hospital in February and expect to incur a one-time charge of approximately \$2-4 million, net of tax and noncontrolling interest, in the first quarter of 2024.

Any of these occurrences or similar occurrences affecting a number of our joint ventures could, in the aggregate, have a material adverse impact on our business and consolidated financial condition, results of operations, and cash flows.

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

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

- limitations, including state CONs as well as anti-trust, Medicare, and other regulatory approval requirements, on our ability to complete such acquisitions, particularly those involving not-for-profit providers, on terms, timetables, and valuations reasonable to us;
- limitations in obtaining financing for acquisitions at a cost reasonable to us;
- difficulties integrating acquired operations, personnel, and information systems, and in realizing projected revenues, efficiencies and cost savings, or returns on invested capital;

- entry into markets, businesses or services in which we may have little or no experience;
- diversion of business resources or management's attention from ongoing business operations; and
- exposure to undisclosed or unforeseen liabilities of acquired operations, including liabilities for failure to comply with healthcare laws and anti-trust considerations as well as risks and liabilities related to previously compromised information systems.

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

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

We may undertake strategic acquisitions from time to time. Prior to consummation of any acquisition, the acquired business will have operated independently of us, with its own procedures, corporate culture, locations, employees and systems. We expect to integrate acquired businesses into our existing business utilizing certain common information systems, operating procedures, administrative functions, financial and internal controls and human resources practices to the extent practicable. There may be substantial difficulties, costs and delays involved in the integration of an acquired business with our business. Additionally, an acquisition could cause disruption to our business and operations and our relationships with customers, employees and other parties. In some cases, the acquired business has itself grown through acquisitions, and there may be legacy systems, operating policies and procedures, and financial and administrative practices yet to be fully integrated. To the extent we are attempting to integrate multiple businesses at the same time, we may not be able to do so as efficiently or effectively as we initially anticipate. The failure to successfully integrate on a timely basis any acquired business with our existing business could have an adverse effect on our business, financial position, results of operations, and cash flows.

We anticipate our acquisitions will result in benefits including, among other things, increased revenues. However, acquired businesses may not contribute to our revenues or earnings to the extent anticipated, and any synergies we expect may not be realized after the acquisitions have been completed. If the acquired businesses underperform and any underperformance is other than temporary, we may be required to take an impairment charge. Failure to achieve the anticipated benefits could result in the diversion of management's time and energy and could have an adverse effect on our business, financial position, results of operations, and cash flows.

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

Our operations are dependent on the efforts, abilities, and experience of our medical personnel, such as physical therapists, occupational therapists, speech pathologists, nurses, and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified personnel responsible for the daily operations of each of our locations. The lack of availability of clinical personnel is a significant operating issue facing healthcare providers. The operating conditions associated with the COVID-19 pandemic significantly affected the availability and turnover of clinical staff and, in turn, increased staffing costs. It has been widely reported that the challenging working conditions in healthcare associated with the COVID-19 pandemic have led to prevalent job dissatisfaction among clinicians. Availability of clinical staff, elevated turnover and staffing costs continue to be a challenge for us and other healthcare providers. The availability of staff may be exacerbated if immigration is significantly limited in the future. Staffing shortages or retention concerns in one or more markets in which we operate have required and may again require us to enhance wages and benefits to recruit and retain qualified personnel or to contract for more expensive temporary personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate.

If our staffing costs increase, we may not experience reimbursement rate or pricing increases to offset these additional costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased staffing costs is limited. In particular, if staffing costs rise at an annual rate greater than our net annual market basket update from Medicare, as occurred in 2022 and 2023, or we experience a significant shift in our payor mix to lower rate payors such as Medicaid, our results of operations and cash flows will be adversely affected. Conversely, decreases in reimbursement revenues, such as with sequestration, may limit our ability to increase compensation or benefits to the extent necessary to retain key employees, in turn increasing our turnover and associated costs. Union activity is another factor that may contribute to increased staffing costs. We currently have a minimal number of union employees, so an increase in labor union activity could have a significant impact on our staffing costs. Our failure to recruit and retain qualified medical/clinical personnel, or to control our staffing costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

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

We operate in a highly regulated industry in which healthcare providers are routinely subject to litigation. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are a defendant in a number of lawsuits, most of which are general and professional liability matters inherent in treating patients with medical conditions. Our more significant lawsuits and investigations, if any, are discussed in Note 18, *Contingencies and Other Commitments*, to the accompanying consolidated financial statements.

Substantial damages, fines, or other remedies assessed against us or agreed to in settlements could have a material adverse effect on our business, financial position, results of operations, and cash flows, including indirectly as a result of the covenant defaults under our credit agreement or debt instruments or other claims such as those in securities actions. Additionally, the costs of defending litigation and investigations, even if frivolous or nonmeritorious, could be significant.

The FCA allows private citizens, called "relators," to institute civil proceedings on behalf of the United States alleging violations of the FCA. These lawsuits, also known as "whistleblower" or "*qui tam*" actions, can involve significant monetary damages, fines, attorneys' fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. *Qui tam* cases are sealed at the time of filing, which means knowledge of the information contained in the complaint typically is limited to the relator, the federal government, and the presiding court. The defendant in a *qui tam* action may remain unaware of the existence of a sealed complaint for years. While the complaint is under seal, the government reviews the merits of the case and may conduct a broad investigation and seek discovery from the defendant and other parties before deciding whether to intervene in the case and take the lead on litigating the claims. The court lifts the seal when the

government makes its decision on whether to intervene. If the government decides not to intervene, the relator may elect to continue to pursue the lawsuit individually on behalf of the government.

In 2019, we settled with DOJ to conclude an investigation that originated in 2013 based on the allegations made by relators. The seven-year investigation produced no evidence of falsity or fraudulent conduct. Eventually, the court overseeing the *qui tam* actions refused to give DOJ more time to decide whether to intervene and unsealed the cases. DOJ chose not to intervene and prosecute the matter. We settled the DOJ investigation, together with the related *qui tam* or “whistleblower” lawsuits, for a payment of \$48 million, and we expressly denied any wrongdoing. Even when a matter is without merit, as we believe was the case with this investigation, we may still incur significant costs of defense or settlement costs or both.

It is possible that other *qui tam* lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed *qui tam* cases brought pursuant to the FCA.

The healthcare services we provide involve substantial risk of general and professional liability. Inpatient rehabilitative care involves three hours of daily intensive therapy for patients who are usually elderly and come to our hospitals with debilitating medical conditions. Our clinicians must frequently assist patients who have difficulty with mobility. We cannot predict the impact any claims arising out of the care being provided (regardless of their ultimate outcomes) could have on our business or reputation or on our ability to attract and retain patients and employees. We also cannot predict the adequacy of any reserves for such losses or recoveries from any insurance or re-insurance policies.

We self-insure a substantial portion of our professional, general, and workers' compensation liability risks, which may not include risks related to regulatory fines and penalties, through our captive insurance subsidiary, as discussed further in Note 11, *Self-Insured Risks*, to the accompanying consolidated financial statements. Changes in the number of these liability claims and the cost to resolve them impact the reserves for these risks. A variance between our estimated and actual number of claims or average cost per claim could have a material impact, either favorable or unfavorable, on the adequacy of the reserves for these liability risks, which could have an effect on our financial position and results of operations.

Additionally, we operate in states in which the litigation environment may pose a significant business risk to us. For instance, we have been involved in lawsuits, including putative class actions, brought under California's Private Attorneys General Act (“PAGA”). Under PAGA, individuals, including aggrieved employees, can bring individual or class-action claims alleging regulatory violations, including alleged violations of employment regulations. Additionally, judges and juries in California have demonstrated a willingness to grant large verdicts to plaintiffs in connection with employment and labor related cases. In 2017, the California Supreme Court held that plaintiffs bringing suit under PAGA are generally entitled to request and receive a significant amount of information from the employer early in the litigation, which creates pressure for employers to settle early to avoid substantial litigation costs burdens and which has resulted in a significant increase in PAGA claims in recent years.

We may be more vulnerable to the effects of a public health emergency than other businesses due to the nature of our patients, and a regional or global socio-political, weather or other catastrophic event could severely disrupt our business.

A public health emergency can significantly affect healthcare providers because of the direct impacts on patients, capacity to accept patients, employees, necessary supplies to treat patients, and regulatory requirements related to the emergency. The COVID-19 pandemic and actions taken by local, state and federal authorities in response to the pandemic significantly affected our operations, business and financial condition. Future outbreaks of contagious diseases and associated governmental actions could adversely affect our operations, business and financial condition, including potentially our liquidity, particularly if the provision of healthcare services and the supplies for those services are disrupted for a lengthy period of time. The impact on our operations and financial performance depends on numerous factors, including the rate of spread, duration and geographic coverage of an outbreak; the rate and extent to which the disease mutates and the severity of the symptoms of the disease; the status of testing capabilities; the rates of vaccination and therapeutic remedies for the disease and any variant strains; the legal, regulatory and administrative developments related to the pandemic at federal, state, and local levels, such as vaccine mandates, anti-mandate laws and orders, shelter-in-place orders, facility closures and quarantines; and the infectious disease prevention and control efforts of the Company, governments and third parties.

The majority of our patients are elderly individuals with complex medical challenges, many of whom may be more vulnerable than the general public during a contagious disease outbreak or other public health catastrophe. Our employees are also at greater risk of contracting contagious diseases due to their increased exposure to vulnerable patients. For example, if another pandemic were to occur, we could suffer significant losses to our consumer population or a reduction in the availability of our employees and, at a high cost, be required to replace affected workers. Local, regional or national governments might limit or ban public interactions to halt or delay the spread of diseases causing business disruptions and the temporary suspension of our services. Accordingly, certain public health catastrophes could have a material adverse effect on our financial condition and results of operations.

Other unforeseen events, including acts of violence, war, terrorism and other international, regional or local instability or conflicts (including labor issues), embargoes, short-term and long-term weather-related events, natural disasters such as earthquakes and floods, whether occurring in the United States or abroad, could restrict or disrupt our operations and negatively affect our results of operations and cash flows. This risk is more acute in regions where we have a large number of hospitals, such as Texas and Florida. For a list of the states in which we have hospital locations, see Item 2, *Properties*.

Regulatory and other efforts to promote a transition to a lower-carbon economy may result in significant operational and financial challenges for us.

Legislators and regulators at the international, national, regional and local levels have adopted and are expected to continue to adopt legal requirements ultimately designed to reduce greenhouse gas emissions and to promote a transition to a lower-carbon economy. For instance, a number of recently enacted laws and regulations impose on companies broad climate-related disclosure requirements, such as California's suite of statutes adopted in 2023 known as the “climate accountability package,” to track and report matters associated with greenhouse gas emissions, alternative energy usage, energy conservation,

and the transition to a lower-carbon economy. These types of laws and regulations have proliferated in recent years and are likely to continue to do so in the future. These climate-related laws and regulations have increased our costs associated with compliance and are likely to continue to do so in the future. Additionally, the costs that other companies incur to comply with these types of laws and regulations are likely to be passed on to us, which would increase the cost of the goods and services that we purchase from vendors and suppliers. These legal requirements, as well as challenges associated with consumer, investor or lender pressure to change business models and practices, may also lead one or more of our vendors or suppliers to alter, disrupt or cease operations, which may adversely affect our operations. Furthermore, we, as well as our vendors and suppliers, may be

required to adopt alternative energy sources or technology that may not yet be reliable or cost effective, which may result in disruptions to our operations. In addition to incremental costs and potential disruptions to our energy supply and broader supply chain, subsidies from the federal government to the renewable energy industry and other climate-related costs incurred by the federal government may increase the national deficit and debt, which would increase the reimbursement risks we face. See "Reimbursement Risks" above.

There are numerous organizations that provide information to investors on corporate governance and related matters, which have developed rating methodologies for evaluating companies on environmental matters, such as greenhouse gas emissions. Such ratings are used by some investors to inform their investment and voting decisions. Those organizations, however, may base their ratings on assumptions regarding our business that are not accurate or otherwise lack an understanding of the inpatient rehabilitation business, such as conflating our hospitals with typically much larger and energy intensive acute-care hospitals, and their ratings may result in decreased demand for our stock or advocacy campaigns that divert management attention from our core business or, if successful, impose additional costs and burdens on us.

The transition to lower greenhouse gas emissions technology; the effects of energy pricing and reliability and changes in public sentiment, regulations, governmental subsidies and deficits, taxes, public mandates or requirements; the increase in climate-related lawsuits and insurance premiums; and the implementation of more robust disaster recovery and business continuity plans are likely to increase the costs to maintain our operations and to divert management attention from our core business, either of which may have an adverse effect on our business, financial position and results of operations.

Financial Risks

We may incur additional indebtedness in the future, and that debt or the associated increased leverage may have negative consequences for our business. The restrictive covenants included in the terms of our indebtedness could affect our ability to execute aspects of our business plan successfully.

As of **December 31, 2022** **December 31, 2023**, we have approximately \$2.4 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding **\$359.8 million** **\$340.1 million** in finance leases). See Note 10, *Long-term Debt*, to the accompanying consolidated financial statements. Subject to specified limitations, our credit agreement and the indentures governing our debt securities permit us and our subsidiaries to incur material additional debt. If new debt is added to our current debt levels, the risks described here could intensify.

Our indebtedness could have important consequences, including:

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

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

In addition, the terms of our credit agreement and the indentures governing our senior notes do, and our future debt instruments may, impose restrictions on us and our subsidiaries, including restrictions on our ability to, among other things, engage in acquisition and combination transactions, pay dividends on or repurchase our capital stock, engage in transactions with affiliates, or incur or guarantee indebtedness. These covenants could also adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. For additional discussion of our material debt covenants, see the "Liquidity and Capital Resources" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 10, *Long-term Debt*, to the accompanying consolidated financial statements.

In addition, our credit agreement requires us to maintain specified financial ratios and satisfy certain financial condition tests. See the "Liquidity and Capital Resources" section of Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 10, *Long-term Debt*, to the accompanying consolidated financial statements. Although we remained in compliance with the financial ratios and financial condition tests as of **December 31, 2022** **December 31, 2023**, we cannot provide assurance we will continue to do so. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. A severe downturn in earnings, failure to realize anticipated earnings from acquisitions, or, if we have outstanding borrowings under our credit facility at the time, a rapid increase in interest rates could impair our ability to comply with those financial ratios and financial condition tests and we may need to obtain waivers from the required proportion of the lenders to avoid being in default. If we try to obtain a waiver or other relief from the required lenders, we may not be able to obtain it or such relief might have a material cost to us or be on terms less favorable than those in our existing debt. If a default occurs, the lenders could exercise their rights, including declaring all the funds borrowed (together with accrued and unpaid interest) to be immediately

due and payable, terminating their commitments or instituting foreclosure proceedings against our assets, which, in turn, could cause the default and acceleration of the maturity of our other indebtedness. A breach of any other restrictive covenants contained in our credit agreement or the indentures governing our senior notes would also (after giving effect to applicable grace periods, if any) result in an event of default with the same outcome.

As of **December 31, 2022** **December 31, 2023**, approximately **68%** **67%** of our consolidated *Property and equipment, net* was held by our **company** **Company** and its guarantor subsidiaries under its credit agreement. See Note 10, *Long-term Debt*, to the accompanying consolidated financial statements, the “Liquidity and Capital Resources” section of Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, and Item 2, *Properties*.

Uncertainty in the credit markets could adversely affect our financial condition or our growth opportunities.

During 2022 **In recent years**, high yield, investment grade, and sovereign credit markets were affected by geopolitical turmoil, inflationary pressures, and changing central bank policies. These conditions resulted in unsettled credit markets for much of the year. Future market shocks, such as the status of deliberations and legislation to increase the debt ceiling in the United States, could result in reductions in the availability of certain types of debt financing, including access to revolving lines of credit. Future business needs combined with market conditions at the time may cause us to seek alternative sources of potentially less attractive financing and may require us to adjust our business plan accordingly. Tight credit markets, such as might result from further turmoil in the sovereign debt markets, would likely make additional financing more expensive and difficult to obtain. Actions by the United States Federal Reserve system, such as increasing the discount rate, may also increase the interest expense associated with our current or future borrowings. The inability to obtain additional financing at a reasonable cost could have a material adverse effect on our financial condition or our growth opportunities.

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

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Process for Assessing, Identifying and Managing Material Cybersecurity Risks

The proper function, availability, and security of our and third-party information systems are critical to our business. We have attempted to structure our cybersecurity program and its incident response policies and procedures, including an incident response plan (the “IRP”), around the National Institute of Standards and Technology (“NIST”) Cybersecurity Framework, which provides best practices to identify, protect from, respond to, and recover from cyber attacks. The cybersecurity program, led by our chief security officer (“CSO”), consists of dedicated internal IT security employees, including the staff of a security operations center, and long-term third-party security service providers. Our IT security staff, led by our CSO, is responsible for our overall information security strategy, policy, security engineering, operations, and cyber threat detection and response. In furtherance of our cybersecurity program, members of our internal security staff participate in industry and governmental cybersecurity cooperative groups, including the Health Information Sharing and Analysis Center (“H-ISAC”) and the FBI’s InfraGard.

Our CSO, who assumed his current role in 2022, has over 10 years of cybersecurity experience with us and over 27 total years of cybersecurity and IT experience across various industries, including telecom, engineering, and finance. He also holds several cybersecurity certifications: GIAC Certified Incident Handler, GIAC Certified Penetration Tester, and Certified Healthcare Information Security Leader. Our CSO reports directly to our chief information officer (“CIO”). Our CIO, who assumed his current role in 2011, has 34 total years of cybersecurity and IT experience. Prior to assuming the role of CIO, he served in senior IT and security roles for us beginning in 2001. As a highly decorated United States Air Force officer, he served as a CIO, regional CIO, and chief technology officer responsible for the USAF health system’s IT worldwide operations. He also served as a senior staff advisor to various levels of the United States Department of Defense’s military health system on strategic matters related to IT policy, procedures, procurement, solutions, and is a subject matter expert on cybersecurity. He has numerous professional certifications and affiliations, including a CERT Certificate in Cybersecurity Oversight from National Association of Corporate Directors’ Cyber-Risk Oversight Program; Certified Information Systems Security Professional; lifetime member, fellow, and previous board member of the College of Health Information Management Executives.

We maintain an inter-departmental privacy and security committee that oversees our programs and initiatives that seek to protect and secure patient information as well as our data and information systems. This committee is responsible for, among other things, administering our incident response policies and procedures and various training and awareness programs that promote good system security practices by employees. This committee consists of our CSO, CIO, deputy CIO, chief privacy officer, and director of information security and compliance as well as in house attorneys responsible for cybersecurity and securities matters. It currently meets monthly and as warranted by privacy and security events.

The IRP sets forth the strategy to prepare for cybersecurity threats and incidents and the processes and procedures to detect, analyze, contain, and recover after any actual or suspected cybersecurity incidents. The IRP also sets forth the internal reporting process for cybersecurity incidents. In the event of the detection of an actual or suspected cybersecurity incident, the IRP provides that our IT security staff score the incident based on established criteria and manage the incident pursuant to the standard operating procedures. Depending on the assessed criticality of the incident and the systems affected, the staff will report an incident to a security triage team, consisting of the security operations incident response lead and several members of the privacy and security committee. Working with our third-party security vendors as needed, the triage team investigates the incident, manages the response, and reports threats and incidents deemed significant to securities counsel. Securities counsel then works with the executive team to assess materiality for the Company. A member of the executive team would inform our board of directors as warranted.

In general terms, under our cybersecurity program, we undertake measures to protect the safety and security of our information systems and the data maintained within those systems. We have implemented administrative, technical and physical controls on our systems and devices in an attempt to prevent unauthorized access and to promote business resilience in the event of that access. Core elements of our program include the real-time monitoring of both our network and external cybersecurity activity by our internal security operations center and our third-party service providers and the procedures for backing up and recovering our systems. We periodically test the adequacy of our security, business continuity, and disaster recovery measures, including an annual tabletop exercise involving representatives from all key functional departments with the Company, our outside cybersecurity legal counsel, and our primary forensic services firm. Our legal and technical advisors direct the exercise and provide feedback on our performance, which is shared with management and our board of directors. We provide our employees annual training and regular reminders on measures they can take to prevent breaches and other cyber threats, including phishing schemes. We participate in the vulnerability scanning service offered by the Cybersecurity and Infrastructure Security Agency on our internet facing systems and engage external security consultants to perform an annual penetration test of our network. Our systems that process electronic protected health information are risk assessed on a quarterly basis against NIST security controls. Additionally, we maintain insurance coverage for cybersecurity incidents.

Third-party Engagement in Connection with our Cybersecurity Program

We maintain engagements with our cybersecurity legal counsel and forensic services firms, each of which has visibility into current events through its client base. We engage throughout the year with not only our security vendors but also H-ISAC, the FBI's InfraGard, and other communities dedicated to sharing information regarding developing cybersecurity threats.

Third-party IT Vendor Risk Management

Our IT security staff also maintains a third-party IT vendor risk management process. The staff identifies the third parties with whom we contract or otherwise have a relationship involving our network or digital assets that represent an elevated risk based on a detailed rating process. The IT vendor risk management process involves input from various departments, including the affected internal business constituencies, legal, and compliance.

Using a platform endorsed by the H-ISAC, the IT security staff performs risk assessments of third parties that appear to represent the greatest risk to our systems and data. Annually, the privacy and security committee reviews and approves our listing of tier one vendors subject to the assessment. The IT security staff then works with the internal points of contact responsible for the applications, software or systems and the vendors to gather the information necessary to assess the associated risks using common cybersecurity standards and frameworks. Any significant risks identified are shared with the vendors and the compensating controls for those risks are documented in collaboration with the vendors. The internal points of contact and other constituencies then review the results of the assessment process in order to assess the associated value of the product or service against the risk.

Integration into the Overall Risk Management System

Assessing, identifying, and managing cybersecurity related risks are integrated into our overall enterprise risk management (the "ERM") process. Cybersecurity risks are included in the risk universe that the ERM function evaluates to assess the most significant risks to the Company as a whole. To the extent the ERM process identifies a heightened cybersecurity related risk, risk owners are assigned to develop risk mitigation plans, which are then tracked to completion. Management presents quarterly the ERM risk assessment, including key risk indicators, to our board of directors.

Board Oversight of the Cybersecurity Program and Patient Privacy Matters

Our board of directors has actively sought out experience and expertise among its members to further its oversight of cybersecurity risk. We believe that Messrs. Carmichael and Reidy and Ms. Herman have extensive knowledge and experience in cybersecurity oversight. Mr. Carmichael previously served as chief information officer at multiple companies, and Mr. Reidy directly supervised and oversaw the information security programs at two companies. Ms. Herman has completed the National Association of Corporate Directors' Cyber-Risk Oversight Program, which is designed to enhance cybersecurity literacy and strengthen cyber-risk oversight practices, and holds a CERT Certificate in Cybersecurity Oversight.

The Compliance and Quality of Care Committee of our board of directors has primary responsibility for oversight of our cybersecurity risk management program. Our CIO provides quarterly reports on our cybersecurity program to that committee and at least annually to our full board. The reports to the committee and the full board include details and metrics on, among other things, our routine vulnerability assessments, internal and external threat intelligence, quarterly NIST framework assessments, quarterly Company-wide phishing exercises and training, device encryption, routine resilience efforts including quarterly disaster recovery exercises, third-party vendor risk management, annual tabletop incident response exercise, annual business continuity exercise, cyber penetration tests, and 23 NIST cyber hygiene controls. Similarly, our chief compliance officer provides quarterly reports to the Compliance and Quality of Care Committee on patient privacy compliance efforts and related matters. The Compliance and Quality of Care Committee and the full board review, and the committee approves, the annual cybersecurity plan that sets out the primary initiatives and internal audits of the IT security function for the upcoming year. Historically, one or more board members have observed and participated in our annual tabletop incident response exercise.

Effects of Cybersecurity Risks on the Company

To date, we are not aware of having experienced a material compromise of our systems or networks from a cybersecurity incident. However, we routinely identify attempts to gain unauthorized access to our systems. Additionally, some of our vendors and business partners have experienced compromises of their information systems, including systems that we use. On February 21, 2024, Change Healthcare, a subsidiary of UnitedHealth Group that acts as an intermediary for processing of our payment claims for all payors, notified us of a cybersecurity incident affecting some of its systems. In response to the incident, both we and Change Healthcare severed those business service connections between our systems and Change Healthcare's. We promptly conducted forensics on our systems based on the shared information regarding this Change Healthcare incident. As of February 28, 2024, we have not identified any compromise or unauthorized access of our systems or networks. The Change Healthcare incident has not affected our operations, except the submission of payment claims. At this time, we have not determined that this disruption to our submission of claims is likely to materially affect our business strategy, results of operation or financial condition.

Given the increasing cybersecurity threats in the healthcare industry, there can be no assurance we will not experience business interruptions; data loss, ransom, misappropriation or corruption, theft, or misuse of proprietary data, patient or other personally identifiable information; or litigation, investigation, or regulatory action related to any of those, any of which could have a material adverse effect on our patient care, ability to admit patients and to bill and collect for services provided on a timely basis, financial position, and results of operations and could harm our business reputation.

We expend significant capital to protect against cybersecurity threats, including denial of service attacks, email phishing schemes, hacking, advanced persistent threats, malware, and ransomware. Substantial additional expenditures may be required to respond to and remediate any problems caused by cybersecurity incidents, including the unauthorized access to or theft of patient data and protected health information stored in our information systems, the inoperability of our electronic clinical and business systems, and the infiltration or disruption of the information systems of our business partners. In the case of a material cybersecurity incident, the associated expenses and losses and lost revenue may exceed our current insurance coverage for such events. Some adverse consequences may not be insurable, such as reputational harm and third-party business interruption. For further discussion of the risks associated with cyber threats, see Item 1A, *Risk Factors*, "Other Operational Risks."

Item 2. Properties

We currently maintain our principal executive office at 9001 Liberty Parkway, Birmingham, Alabama, the lease for which expires in 2033 and has multiple renewal options for additional five-year terms. In addition to our principal executive office, we lease or own hospital locations as noted in the table below. All of our hospital leases, which represent the substantial majority of our rent expense, have at least five years remaining on their terms after taking into consideration one or more renewal options. Our consolidated entities

associated with our leased hospitals are generally responsible for property taxes, property and casualty insurance, and routine maintenance expenses. We do not believe any one of our individual properties is material to our consolidated operations.

The following table sets forth information regarding our hospital locations as of **December 31, 2022** **December 31, 2023**:

State	State	Number of Hospitals					State	Licensed Beds	Number of Hospitals				Total
		Licensed Beds	Building and Land Owned	Building Owned and Land Leased	Building and Land Leased	Total			Building and Land Owned	Building Owned and Land Leased	Building and Land Leased		
Alabama *	Alabama *	457	3	3	1	7							
Arizona	Arizona	396	1	2	3	6							
Arkansas	Arkansas	368	3	1	1	5							
California	California	251	4	—	—	4							
Colorado	Colorado	124	1	—	1	2							
Delaware *	Delaware *	40	—	1	—	1							
Florida	Florida	1,323	17	1	1	19							
Georgia *	Georgia *	280	4 ⁽¹⁾	1	—	5							
Idaho	Idaho	40	—	1	—	1							
Illinois *	Illinois *	205	2	2	—	4							
Indiana	Indiana	98	1	—	—	1							
Iowa		40	1	—	—	1							
Iowa *													
Kansas	Kansas	177	1	—	1	2							
Kentucky *	Kentucky *	343	2	1	—	3							
Louisiana	Louisiana	87	2	—	—	2							
Maine *	Maine *	100	—	—	1	1							
Maryland *	Maryland *	74	1	—	—	1							
Massachusetts *	Massachusetts *	529	2	—	2	4							
Mississippi *	Mississippi *	43	—	—	1	1							
Missouri *	Missouri *	196	—	2	—	2							
Nevada *		219	2	—	1	3							
Nevada													
New Hampshire	New Hampshire	50	—	1	—	1							
New Jersey *	New Jersey *	199	1	1	1	3							
New Mexico	New Mexico	87	1	—	—	1							
North Carolina *	North Carolina *	68	1	—	—	1							
North Dakota	North Dakota	40	—	—	1	1							
Ohio	Ohio	260	2	1	1	4							
Oklahoma	Oklahoma	60	—	1	—	1							
Pennsylvania	Pennsylvania	709	5	—	4	9							
Puerto Rico *	Puerto Rico *	75	—	—	2	2							
South Carolina *		496	3	4	1	8							
South Carolina													
South Dakota	South Dakota	40	1	—	—	1							
Tennessee *	Tennessee *	493	6	3	—	9							
Texas	Texas	1,746	13	3	10	26							
Utah	Utah	84	1	—	—	1							
Virginia *	Virginia *	297	2	1	3	6							

West Virginia * West Virginia *	262	2	2	—	4
Wisconsin					
	10,356	85	32	36	153

* Hospital certificate of need state or U.S. territory. In 2023, South Carolina enacted legislation to repeal CON laws for several provider types, including inpatient rehabilitation hospitals.

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

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

Item 3. Legal Proceedings

We provide services in the highly regulated healthcare industry. Furthermore, operating inpatient rehabilitation hospitals requires significant staffing and involves intensive therapy for individuals suffering from significant physical or cognitive disabilities or injuries. In the ordinary course of our business, we are a subject to regulatory and other governmental audits and investigations and are party to various legal actions, proceedings, and claims, as well as regulatory including employment and other governmental audits and investigations, personal injury claims. These matters could potentially subject us to sanctions, damages, recoupments, fines, and other penalties. Some of these matters have been material to us in the past, and others in the future may, either individually or in the aggregate, be material and adverse to our business, financial position, results of operations, and liquidity.

Additionally, the False Claims Act (the "FCA") allows private citizens, called "relators," to institute civil proceedings on behalf of the United States alleging violations of the FCA. These lawsuits, also known as "*qui tam*" actions, are common in the healthcare industry and can involve significant monetary damages, fines, attorneys' fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. It is possible that *qui tam* lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. Therefore, from time to time, we may be party to one or more undisclosed *qui tam* cases brought pursuant to the FCA.

Information relating to certain legal proceedings in which we are involved is included in Note 18, *Contingencies and Other Commitments*, to the accompanying consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Shares of our common stock trade on the New York Stock Exchange under the ticker symbol "EHC."

Holders

As of February 13, 2023 February 14, 2024, there were 99,727,422 100,140,031 shares of Encompass Health common stock issued and outstanding, net of treasury shares, held by approximately 6,613 6,438 holders of record (participant positions at The Depository Trust Corporation plus record holders).

Dividends

On February 23, 2023 October 19, 2023, our board of directors declared a cash dividend of \$0.15 per share, payable on April 17, 2023 January 16, 2024 to stockholders of record on April 3, 2023 January 2, 2024. We expect comparable quarterly dividends to continue to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board each quarter after consideration of various factors, including our capital position and alternative uses of funds.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth, as of **December 31, 2022** **December 31, 2023**, information concerning compensation plans under which our securities are authorized for issuance. The table does not reflect grants, awards, exercises, terminations, or expirations since that date. Pursuant to the terms of the equity plans, all share amounts and exercise prices have been adjusted to reflect the spin off of our home health and hospice business on July 1, 2022 and stock splits that occurred after the date on which any particular underlying plan was adopted, to the extent applicable.

		Number of securities to be issued upon exercise of outstanding options		Weighted-average price of outstanding options ⁽¹⁾	Number of securities available for future issuance						
		Number of securities to be issued upon exercise of outstanding options									
Plans approved by stockholders											
Plans approved by stockholders											
Plans approved by stockholders	Plans approved by stockholders	(2)	(3)	(2)	(2)	(3)	(3)				
		3,084,813	\$ 47.12	8,879,281	3,354,824	\$ 49.51	8,204,463	8,204,463			
Plans not approved by stockholders	Plans not approved by stockholders	(4)		—							
Total	Total	3,189,380	\$ 47.12	8,879,281							
Total	Total										

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

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

⁽³⁾ This amount represents the number of shares available for future equity grants under the 2016 Omnibus Performance Incentive Plan approved by our stockholders in May 2016.

⁽⁴⁾ This amount represents 104,567 restricted stock units issued under the 2004 Amended and Restated Director Incentive Plan, the material terms of which are described below.

2004 Amended and Restated Director Incentive Plan

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

Purchases of Equity Securities

The following table summarizes our repurchases of equity securities during the three months ended **December 31, 2022** **December 31, 2023**:

Period	Total Number of Shares (or Units) Purchased ⁽¹⁾	Average Price Paid per Share (or Unit) (\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1 through October 31, 2022	1,793	\$ 49.16	—	198,053,924

November 1 through November 30, 2022	—	—	—	198,053,924
December 1 through December 31, 2022	158	57.99	—	198,053,924
Total	1,951	\$ 49.87	—	

Period	Total Number of Shares (or Units) Purchased ⁽¹⁾	Average Price Paid per Share (or Unit) (\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1 through October 31, 2023	545	\$ 64.58	—	198,053,924
November 1 through November 30, 2023	808	62.76	—	198,053,924
December 1 through December 31, 2023	—	—	—	198,053,924
Total	1,353	\$ 63.49	—	

- (1) Except as noted in the following sentence, the number of shares reported in this column represents shares tendered by an employee as payment of the tax liabilities incident to the vesting of previously awarded shares of restricted stock. In October, 1,418,545 shares were purchased pursuant to our Directors' Deferred Stock Investment Plan. This plan is a nonqualified deferral plan allowing non-employee directors to make advance elections to defer a fixed percentage of their director fees. The plan administrator acquires the shares in the open market which are then held in a rabbi trust. The plan also provides that dividends paid on the shares held for the accounts of the directors will be reinvested in shares of our common stock which will also be held in the trust. The directors' rights to all shares in the trust are nonforfeitable, but the shares are only released to the directors after departure from our board.
- (2) On October 28, 2013, we announced our board of directors authorized the repurchase of up to \$200 million of our common stock. On February 14, 2014, our board approved an increase in this common stock repurchase authorization from \$200 million to \$250 million. On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to \$250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Company Stock Performance

Set forth below is a line graph comparing the total returns of our common stock, the Standard & Poor's 500 Index ("S&P 500"), and the S&P Health Care Services Select Industry Index ("SPSIHP"), an equal-weighted index of at least 35 companies in healthcare services that are also part of the S&P Total Market Index and subject to float-adjusted market capitalization and liquidity requirements. Our compensation committee has in prior years used the SPSIHP as a benchmark for a portion of the awards under our long-term incentive program. The graph assumes \$100 invested on December 31, 2017 December 31, 2018 in our common stock and each of the indices. The returns below assume reinvestment of dividends paid on the related common stock. We have paid a quarterly cash dividend on our common stock since October 2013.

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

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

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

Among Encompass Health Corporation, the S&P 500 Index, and the S&P Health Care Services Select Industry Index

7094

Company/Index Name	Company/Index Name	For the Year Ended December 31,						Company/Index Name	For the Year Ended December 31,					
		Base Period	Cumulative Total Return						Base Period	Cumulative Total Return				
		2017	2018	2019	2020	2021	2022		2018	2019	2020	2021	2022	2023
Encompass Health Corporation	Encompass Health Corporation	100.00	126.89	144.98	176.03	141.00	165.08							

S&P 500	S&P 500	100.00	95.62	125.72	148.85	191.58	156.88
SPSIHP	SPSIHP	100.00	103.02	122.78	164.29	180.72	145.15
Item 6.	[Reserved]						

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

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

In addition, management's discussion and analysis of our results of operations and cash flows for the year ended December 31, 2022 compared to the year ended December 31, 2021 may be found in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on February 27, 2023.

Executive Overview

Our Business

We are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated, revenues, and number of hospitals. We provide specialized rehabilitative treatment on an inpatient basis. We operate hospitals in 36 states and Puerto Rico, with concentrations in the eastern half of the United States Florida and Texas. As of December 31, 2022, we operate 153 inpatient rehabilitation hospitals. For additional information about our business, see Item 1, *Business* and Item 1A, *Risk Factors*, of this report.

The onset of the COVID-19 Pandemic (the "pandemic") in the United States resulted in significant changes to our operating environment. For discussion of the financial and operational impacts we have experienced as a result of the pandemic, see Item 1, *Business*, Item 1A, *Risk Factors*, and the "Key Challenges" and "Results of Operations" sections of this Item.

Spin Off of Home Health and Hospice Business

On July 1, 2022, we completed the previously announced separation of our home health and hospice business through the distribution (the "Spin Off") of all of the outstanding shares of common stock, par value \$0.01 per share, of Enhabit, Inc. ("Enhabit") to the stockholders of record of Encompass Health as of the close of business on June 24, 2022 (the "Record Date"). The Spin Off was effective at 12:01 a.m., Eastern Time, on July 1, 2022. The Spin Off was structured as a pro rata distribution of one share of Enhabit common stock for every two shares of Encompass Health common stock held of record as of the Record Date. No fractional shares were distributed. A cash payment was made in lieu of any fractional shares. As a result of the Spin Off, Enhabit is now an independent public company and its common stock is listed under the symbol "EHAB" on the New York Stock Exchange.

In accordance with applicable accounting guidance, the historical results of Enhabit have been presented as discontinued operations and, as such, have been excluded from continuing operations for all periods presented. Our presentation of discontinued operations excludes any allocation of general corporate and overhead costs as well as interest expense. Prior to July 1, 2022, we operated under two reporting segments. We now operate under a single reporting segment. For additional information see Note 2, *Spin Off of Home Health and Hospice Business*, to the consolidated financial statements.

In connection with the Spin Off, on June 30, 2022, we entered into several agreements with Enhabit that govern the relationship of the parties following the Spin Off, including a Separation and Distribution Agreement, a Transition Services Agreement, a Tax Matters Agreement and an Employee Matters Agreement. See also Note 2, *Spin Off of Home Health and Hospice Business*, to the consolidated financial statements.

2022 Overview

During 2022, Net operating revenues increased 8.3% over 2021 due primarily to volume growth and increased pricing. See the "Results of Operations" section of this Item for additional financial information.

We continued our development and expansion efforts in 2022. We:

- began operating our new 40-bed inpatient rehabilitation hospital and 22-bed hospital-in-hospital satellite in Shiloh, Illinois Knoxville, Tennessee with our joint venture partner BJC HealthCare Covenant Health in February 2022; March 2023;
- began operating our new 36-bed inpatient rehabilitation hospital in Eau Claire, Wisconsin with our joint venture partner Hospital Sisters Health System in March 2023;
- began operating our new 40-bed inpatient rehabilitation hospital in Owasso, Oklahoma with our joint venture partner Ascension St. Augustine, John in March 2023;
- began operating our new 50-bed inpatient rehabilitation hospital in Clermont, Florida in March 2022; April 2023;

- began operating our new 60-bed inpatient rehabilitation hospital in **Libertyville, Illinois** **Bowie, Maryland** in **March 2022**;
- **June 2023** (joint venture partnership with University of Maryland Rehabilitation Institute of Southern Maryland, LLC began **operating our new 50-bed inpatient rehabilitation hospital** in **Lakeland, Florida** in **May 2022**; **July 2023**);
- began operating our new 40-bed inpatient rehabilitation hospital in **Cape Coral, Florida** **Columbus, Georgia** with our joint venture partner **Lee Piedmont Healthcare, Holdings, LLC Inc.** in **June 2022**;
- **began operating our new 50-bed inpatient rehabilitation hospital** in **Jacksonville, Florida** in **June 2022**; **September 2023**;
- began operating our new 40-bed inpatient rehabilitation hospital in **Grand Forks, North Dakota** with our joint venture partner **Altru Prosper, Texas** in **August 2022**; **November 2023**;
- began operating our new **40-bed 56-bed** inpatient rehabilitation hospital in **Moline, Illinois** with our joint venture partner **UnityPoint Health – Trinity Fitchburg, Wisconsin** in **August 2022**;
- **began operating our new 50-bed inpatient rehabilitation hospital** in **Naples, Florida** in **September 2022** (joint venture partnership with NCH Healthcare System began in **December 2022**); **November 2023**;
- continued our capacity expansions by adding **87 46** new beds to existing hospitals; and
- announced or continued the development of the following hospitals:

	Number of New Beds		
	2023	2024 ⁽²⁾	2025 ⁽²⁾
Eau Claire, Wisconsin 2026⁽¹⁾ (2)	36	—	—
Knoxville, Tennessee ⁽¹⁾	73	—	—
Owasso, Oklahoma ⁽¹⁾	40	—	—
Clermont, Kissimmee, Florida	50	—	—
Bowie, Maryland	60	—	—
Prosper, Texas	40	—	—
Columbus, Georgia ⁽¹⁾	40	—	—
Fitchburg, Wisconsin	56	—	—
Atlanta, Georgia ⁽¹⁾	40	40	—
Kissimmee, Florida Johnston, Rhode Island	50	—	50
Fort Mill, South Carolina	39	39	—
Louisville, Kentucky ⁽¹⁾	—	40	—
Johnston, Rhode Island	—	50	—
Houston, Texas	61	61	—
Lake Worth, Daytona Beach, Florida	—	50	—
Fort Myers, Florida ⁽¹⁾	—	60	—
Lake Worth, Florida	—	50	—
Concordville, Pennsylvania	—	50	—
Norristown, Pennsylvania	—	50	—
Wildwood, Florida	—	50	—
Athens, Georgia ⁽¹⁾	—	40	—
St. Petersburg, Florida	—	50	—
Palm Beach Gardens, Florida	—	—	50
Amarillo, Texas	—	—	40 50
Strongsville, Ohio Danbury, Connecticut	—	—	40
Norristown, Pennsylvania	—	—	50
Wildwood, Florida	—	—	50
Athens, Georgia ⁽¹⁾	—	—	40
St. Petersburg, Florida	—	—	50
Daytona Beach, Florida	—	—	50

⁽¹⁾ Expected joint venture

⁽²⁾ Opening dates are tentative

⁽³⁾ In January 2024, we received notice that our joint venture partner intends to close its acute-care hospital in which the joint venture inpatient rehabilitation hospital is located. We also continued taking steps closed that joint venture hospital in February and expect to further increase incur a one-time charge of approximately \$2-4 million, net of tax and noncontrolling interest, in the first quarter of 2024.

We increased the strength and flexibility of our balance sheet as well as augment augmented returns from investments in operations with shareholder distributions via common stock dividends. For additional information, see the "Liquidity and Capital Resources" section of this Item.

Business Outlook

We remain optimistic regarding the intermediate and long-term prospects of our business. Demographic trends, such as population aging, should continue to increase long-term demand for the services we provide. While we treat patients of all ages, most of our patients are 65 and older, and the number of Medicare enrollees is expected to grow approximately 3% per year for the foreseeable future, reaching approximately 73 million people over the age of 65 by 2030. More specifically, the average age of our Medicare patients is approximately 76, and the population group ranging in ages from 75 to 79 is expected to grow at approximately 5% per year through 2026. We believe the demand for the services we provide will continue to increase as the U.S. population ages. We believe these factors align with our strengths in, and focus on, inpatient rehabilitation services.

We are committed to delivering high-quality, cost-effective integrated patient care. As the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated, revenues, and number of hospitals, we believe we differentiate ourselves from our competitors based on, among other things, the quality of our clinical outcomes, our cost-effectiveness, our financial strength, and our extensive application of technology. We also believe our competitive strengths discussed in Item 1, *Business*, "Competitive Strengths," give us the ability to adapt and succeed in a healthcare industry facing regulatory uncertainty around attempts to improve outcomes and reduce costs.

The healthcare industry faces the prospect of ongoing efforts to transform the healthcare system to coordinated care delivery and payment models. The nature, timing and extent of that transformation remains uncertain, as the development and implementation of new care delivery and payment systems will require significant time and resources. Our goal is to position the Company in a prudent manner to be responsive to industry shifts. We have invested in our core business and created an infrastructure that enables us to provide high-quality care on a cost-effective basis. We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2025. We continue to have a strong, well-capitalized balance sheet, including a substantial portfolio of owned real estate, and ample availability under our revolving credit facility, which along with the cash flows generated from operations should, we believe, provide sufficient support for our ability to adapt to changes in reimbursement, sustain our business model, and grow through *de novo* and bed additions. See also Item 1, *Business*, “Competitive Strengths” and “Strategy and 2023 2024 Strategic Priorities.”

Key Challenges

Healthcare is a highly-regulated industry facing many well-publicized regulatory and reimbursement challenges. Medicare reimbursement for inpatient rehabilitation facilities (“IRFs”) has recently undergone significant changes. The future of many aspects of healthcare regulation generally and Medicare reimbursement specifically remains uncertain. Successful healthcare providers are those able to adapt to changes in the regulatory and operating environments, build strategic relationships across the healthcare continuum, and consistently provide high-quality, cost-effective care. We believe we have the necessary capabilities — capabilities—change agility, strategic relationships, quality of patient outcomes, cost effectiveness, and ability to capitalize on growth opportunities — opportunities—to adapt to and succeed in a dynamic, highly regulated industry, and we have a proven track record of doing so.

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

- Operating in a Highly Regulated Industry. We are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. More specifically, because Medicare comprises a significant portion of our *Net operating revenues*, failure to comply with the laws and regulations governing the Medicare program and related matters, including anti-kickback and anti-fraud requirements, could materially and adversely affect us. These rules and regulations have affected, or could in the future affect, our business activities by having an impact on the reimbursement we receive for services provided or the costs of compliance, mandating new documentation standards, requiring additional licensure or certification, regulating our relationships with physicians and other referral sources, regulating the use of our properties, and limiting our ability to enter new markets or add new capacity to existing hospitals. Ensuring continuous compliance with extensive laws and regulations is an operating requirement for all healthcare providers. See Item 1, *Business*, “Regulation” and Item 1A, *Risk Factors*, “Reimbursement Risks” and “Other Regulatory Risks” for detailed discussions of the most important regulations we face and our programs intended to ensure we comply with those regulations.

Reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals, are subject to audit from time to time by governmental payors, such as Centers for Medicare & Medicaid Services (“CMS”) and state Medicaid programs, their agents, such as the Medicare Administrative Contractors (“MACs”) that act as fiscal intermediaries for all Medicare billings, other auditors contracted by CMS, and private insurance carriers, as well as the United States Department of Health and Human Services Office of Inspector General. These audits as well as the ordinary course claim reviews of our billings result in payment denials, including recoupment of previously paid claims from current accounts receivable. Healthcare providers can challenge any denials through an administrative appeals process that can be extremely lengthy, taking up to several years. For additional details of these our claim reviews, See see Item 1, *Business*, “Sources of Revenues,” Item 1A, *Risk Factors*, “Reimbursement Risks,” and Note 1, *Summary of Significant Accounting Policies*, “Net Operating Revenues” and “Accounts Receivable,” to the accompanying consolidated financial statements.

- Changes in Medicare Reimbursement and Regulatory Requirements for Operating IRFs. Substantially all of our business consists of inpatient rehabilitation services. From a payor perspective, our reimbursement and regulatory risk is concentrated in the Medicare inpatient rehabilitation rules and regulations. We derive approximately 65% of our *Net operating revenues* from fee-for-service Medicare.

As part of its annual rulemaking process for various healthcare provider categories, CMS adopts IRF reimbursement rate changes effective from October through the following September. On July 27, 2022 July 27, 2023, CMS released its notice of final rulemaking for fiscal year 2023 2024 for IRFs (the “2023 “2024 IRF Rule”) under the inpatient rehabilitation facility prospective payment system (the “IRF-PPS”). Based on our analysis that utilizes, among other things, the acuity of our patients annualized over a twelve-month period ended June 30, 2022 June 30, 2023, our experience with outlier payments over this same time frame, and other factors, we believe the 2023 2024 IRF Rule will result in a net increase to our Medicare payment rates of approximately 4.0% 3.3% effective October 1, 2022 October 1, 2023.

Congress also regularly adopts legislation that directly affects Medicare reimbursement. These reimbursement changes can result in limitations on the increases in and, in some cases, significant roll-backs or reductions in the levels of payments for IRF services. For example, the Patient Protection and Affordable Care Act (the “ACA”) enacted in 2010 provides provided for specific reductions to healthcare providers’ annual reimbursement rate updates and other payment policy changes. The Budget Control Act of 2011 provides for an automatic 2% reduction, or “sequestration,” of Medicare program payments for all healthcare providers. Sequestration took effect April 1, 2013 and, as a result of subsequent legislation, will continue through mid-year mid-fiscal year 2032 unless Congress and the President take further action. In response to the public health emergency associated with the COVID-19 pandemic, Congress and the President suspended sequestration through March 31, 2022. Additional Medicare payment reductions are also possible under the Statutory Pay-As-You-Go Act of 2010 (“Statutory PAYGO”). Statutory PAYGO requires, among other things, that mandatory spending and revenue legislation not increase the federal budget deficit over a 5- or 10-year period. The Congressional Budget Office estimated that the American Rescue Plan Act of 2021 would result in budget deficits necessitating a 4% reduction in Medicare program payments under the Statutory PAYGO, but subsequent legislation enacted by Congress suspended until 2025 the Statutory PAYGO reductions that would have gone into effect. There can be no assurance that future federal rulemaking and legislation will not result in reimbursement freezes or reductions, or reimbursement increases that are less than the increases we experience in our costs of operation.

In addition to direct changes to Medicare reimbursement rates, other federal regulatory and legislative actions affect healthcare generally and our business specifically. For example, the ACA also included provisions intended to promote alternative payment models, such as accountable care organizations (“ACOs”) and bundled payment initiatives, including the Bundled Payments for Care Improvement Initiative Advanced (“BPCI Advanced”) and the Comprehensive Care for Joint Replacement (“CJR”) program. Likewise, CMS regulatory proposals can affect our operations. On December 14, 2020, CMS announced a five-year review choice demonstration for inpatient rehabilitation services (the “IRF RCD”). The IRF RCD would affect began in Alabama in August 2023. CMS intends to expand this demonstration to Pennsylvania, Texas, and California but has not yet announced the timing for doing so. The IRF RCD affects the process in which we submit, and receive

reimbursement for, Medicare claims. A number Under the IRF RCD, 100% of key details on this demonstration have yet Medicare reimbursement claims are reviewed for compliance with applicable coverage and clinical documentation requirements. We elected to participate initially in the pre-claim review option under IRF RCD. The pre-claim review request with required documentation must be submitted and reviewed before the final claim is submitted for payment. If a certain percentage of the claims reviewed are found to be released, valid, the IRF may then opt out of the 100% review. That percentage will initially be 80% or greater for the first six-month period and it is not clear how eventually increases to 90% or when CMS greater in subsequent review cycles. In opting out, the IRF may elect spot prepayment reviews of samples consisting of 5% of total claims or selective post-payment review of a random sample. As of year end 2023, we cannot be certain our claim validation rate will implement this demonstration, continue to exceed the required percentage for each review cycle, nor can we predict the impact, if any, the IRF RCD may have on our volumes or the collectability of our Medicare claims over its five-year term.

For additional discussion of changes to Medicare reimbursement, including the 2023 IRF Rule and Statutory PAYGO, and other proposed and adopted legislative and regulatory actions, including alternative payment models and the IRF RCD, that may be material to our business, see Item 1, *Business*, and Item 1A, *Risk Factors*, "Reimbursement Risks" and "Other Regulatory Risks."

Concerns held by federal policymakers about the federal deficit, national debt levels, and the solvency of the Medicare trust fund, as well as other healthcare policy priorities, could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, and further reductions to provider payments. We cannot predict what, if any, changes in Medicare spending or modifications to the healthcare laws and regulations will result from future budget or other legislative or regulatory initiatives.

As discussed in Item 1, *Business*, healthcare will almost certainly be the subject of significant regulatory and legislative changes regardless of party in control of the executive and legislative branches of state and federal governments. We will continue to evaluate these laws and regulations and position the Company for this industry shift. Based on our track record, we believe we can adapt to these regulatory and industry changes. Further, we have engaged, and will continue to engage, actively in discussions with key legislators and regulators to attempt to ensure any healthcare laws or regulations adopted or amended promote our goal of high-quality, cost-effective care.

- Maintaining Strong Volume Growth.** Various factors, including competition and increasing regulatory and administrative burdens, may impact our ability to maintain and grow our hospital volumes. In any particular market, we may encounter competition from local or national entities with longer operating histories or other competitive advantages, such as acute-care hospitals who provide post-acute services similar to ours or other post-acute providers with relationships with referring acute-care hospitals or physicians. Aggressive payment review practices by Medicare contractors, aggressive enforcement of regulatory policies by government agencies, and restrictive or burdensome rules, regulations or statutes governing admissions practices may lead us to not accept patients who would be appropriate for and would benefit from the services we provide. In addition, from time to time, we must get regulatory approval to expand our services and locations in states with certificate of need laws. This approval may be withheld or take longer than expected. In the case of new-store volume growth, the addition of hospitals to our portfolio also may be difficult and take longer than expected. Clinical staffing shortages, recently exacerbated by the pandemic, can also limit our ability to admit patients in a given market.
- Recruiting and Retaining High-Quality Personnel.** See Item 1A, *Risk Factors*, for a discussion of competition for staffing, shortages of qualified personnel, and other factors that may increase our labor costs and constrain our ability to take new patients. Recruiting and retaining qualified personnel, including management, for our inpatient hospitals remain a high priority for us. We attempt to maintain a comprehensive compensation and benefits package that allows us to remain competitive in this challenging staffing environment while remaining consistent with our goal of being a providing high-quality, cost-effective provider of post-acute services, care. Additionally, our operations have been affected and may in the future be affected by staffing shortages. In recent years, staffing shortages where employees must self-quarantine due to exposure to an infectious disease, where employees are unavailable due to a lack of childcare or care for elderly family, or where and competition creates a nursing shortage in a given market. These factors have resulted in increased labor costs, including significant sign-on and shift bonuses, and increased use of contract labor. See Item 1A, *Risk Factors*, for further discussion of competition for staffing, shortages of qualified personnel, and other factors that may increase our labor as discussed in the "Results of Operations" section of this Item, costs and constrain our ability to take new patients.

We remain confident in the prospects of our business based on the increasing demands for the services we provide to an aging population. This confidence is further supported by our strong financial foundation and the substantial investments we have made in our business. We have a proven track record of working through difficult situations, and we believe in our ability to overcome current and future challenges.

Results of Operations

Payor Mix

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

		For the Year Ended December 31,			For the Year Ended December 31,				
		2022	2021	2020	2023		2022		2021
Medicare	Medicare	65.3 %	64.4 %	66.7 %	Medicare	65.0 %	65.3 %		64.4 %
Medicare Advantage	Medicare Advantage	15.1 %	15.2 %	15.3 %	Medicare Advantage	16.2 %	15.1 %		15.2 %

Managed care	Managed care	11.6 %	12.1 %	10.4 %	Managed care	11.1 %	11.6 %	12.1 %
Medicaid	Medicaid	4.2 %	4.1 %	3.9 %	Medicaid	4.0 %	4.2 %	4.1 %
Other third-party payors	Other third-party payors	0.9 %	1.1 %	1.2 %	Other third-party payors	0.9 %	0.9 %	1.1 %
Workers' compensation	Workers' compensation	0.6 %	0.6 %	0.6 %	Workers' compensation	0.5 %	0.6 %	0.6 %
Patients	Patients	0.4 %	0.5 %	0.5 %	Patients	0.3 %	0.4 %	0.5 %
Other income	Other income	1.9 %	2.0 %	1.4 %	Other income	2.0 %	1.9 %	2.0 %
Total	Total	100.0 %	100.0 %	100.0 %	Total	100.0 %	100.0 %	100.0 %

Our payor mix is weighted heavily towards Medicare. We receive Medicare reimbursements under the IRF-PPS. For additional information regarding Medicare reimbursement, see the "Sources of Revenues" section of Item 1, *Business*.

As part of the Balanced Budget Act of 1997, Congress created a program of private, managed healthcare coverage for Medicare beneficiaries. This program has been referred to as Medicare Part C, or "Medicare Advantage." The program offers beneficiaries a range of Medicare coverage options by providing a choice between the traditional fee-for-service program (under Medicare Parts A and B) or enrollment in a health maintenance organization, preferred provider organization, point-of-service plan, provider sponsor organization, or an insurance plan operated in conjunction with a medical savings account.

Our *Net operating revenues* consist primarily of revenues derived from patient care services. *Net operating revenues* also include other revenues generated from management and administrative fees and other non-patient care services. These other revenues are included in "other income" in the above table.

Our Results

Our consolidated results of operations were as follows:

		For the Year Ended December 31,			Percentage Change			For the Year Ended December 31,						
					2022 vs. 2021 vs.									
		2022	2021	2020	2021	2020		2023	2022			2021		
		(In Millions)						(In Millions)						
Net operating revenues	Net operating revenues	\$4,348.6	\$4,014.9	\$3,566.3	8.3 %	12.6 %	Net operating revenues	\$4,801.2	\$	\$	4,348.6	\$		\$4,014.9
Operating expenses:	Operating expenses:						Operating expenses:							
Salaries and benefits	Salaries and benefits	2,393.3	2,127.3	1,903.8	12.5 %	11.7 %	Salaries and benefits	2,600.1	2,393.3		2,393.3		2,127.3	
Other operating expenses	Other operating expenses	670.4	595.9	545.1	12.5 %	9.3 %	Other operating expenses	719.1	670.4		670.4		595.9	
Occupancy costs	Occupancy costs	54.7	59.0	61.4	(7.3)%	(3.9)%	Occupancy costs	56.3	54.7		54.7		59.0	
Supplies	Supplies	202.1	184.2	171.0	9.7 %	7.7 %	Supplies	218.3	202.1		202.1		184.2	
General and administrative expenses	General and administrative expenses	154.3	169.5	151.6	(9.0)%	11.8 %	General and administrative expenses	201.7	154.3		154.3		169.5	
Depreciation and amortization	Depreciation and amortization	243.6	219.6	203.0	10.9 %	8.2 %	Depreciation and amortization	273.9	243.6		243.6		219.6	
Government, class action, and related settlements		—	—	2.8	— %	(100.0)%								
Total operating expenses														
Total operating expenses														
Total operating expenses	Total operating expenses	3,718.4	3,355.5	3,038.7	10.8 %	10.4 %		4,069.4	3,718.4		3,718.4		3,355.5	3,355.5
Loss on early extinguishment of debt	Loss on early extinguishment of debt	1.4	1.0	2.3	40.0 %	(56.5)%	Loss on early extinguishment of debt	—	1.4		1.4		1.0	
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	175.7	164.3	183.7	6.9 %	(10.6)%	Interest expense and amortization of debt discounts and fees	143.5	175.7		175.7		164.3	

Other expense (income)		5.2	(7.5)	(8.4)	(169.3)%	(10.7)%						
Other (income) expense							Other (income) expense	(15.7)		5.2	(7.5)	
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	(2.9)	(3.4)	(2.9)	(14.7)%	17.2 %	Equity in net income of nonconsolidated affiliates	(3.2)	(2.9)	(2.9)	(3.4)	
Income from continuing operations before income tax expense	Income from continuing operations before income tax expense	450.8	505.0	352.9	(10.7)%	43.1 %	Income from continuing operations before income tax expense	607.2	450.8	450.8	505.0	
Provision for income tax expense	Provision for income tax expense	100.1	101.9	74.7	(1.8)%	36.4 %	Provision for income tax expense	132.2	100.1	100.1	101.9	
Income from continuing operations	Income from continuing operations	350.7	403.1	278.2	(13.0)%	44.9 %	Income from continuing operations	475.0	350.7	350.7	403.1	
Income from discontinued operations, net of tax		15.2	114.1	90.6	(86.7)%	25.9 %						
(Loss) income from discontinued operations, net of tax							(Loss) income from discontinued operations, net of tax	(12.0)		15.2	114.1	
Net income	Net income	365.9	517.2	368.8	(29.3)%	40.2 %	Net income	463.0	365.9	365.9	517.2	
Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(93.6)	(103.2)	(83.3)	(9.3)%	23.9 %	Less: Net income attributable to noncontrolling interests included in continuing operations	(111.0)	(93.6)	(93.6)	(103.2)	
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)	(1.3)	(27.8)%	38.5 %	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(1.3)	(1.3)	(1.8)	
Less: Net and comprehensive income attributable to noncontrolling interests	Less: Net and comprehensive income attributable to noncontrolling interests	(94.9)	(105.0)	(84.6)	(9.6)%	24.1 %	Less: Net and comprehensive income attributable to noncontrolling interests	(111.0)	(94.9)	(94.9)	(105.0)	
Net income attributable to Encompass Health	Net income attributable to Encompass Health	271.0	412.2	284.2	(34.3)%	45.0 %	Net income attributable to Encompass Health	\$ 352.0	\$	\$ 271.0	\$ 412.2	

Operating Expenses as a % of Net Operating Revenues

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
Operating expenses:	Operating expenses:						
Salaries and benefits	Salaries and benefits						

Salaries and benefits	Salaries and benefits	55.0 %	53.0 %	53.4 %		54.2 %	55.0 %	53.0 %
Other operating expenses	Other operating expenses	15.4 %	14.8 %	15.3 %	Other operating expenses	15.0 %	15.4 %	14.8 %
Occupancy costs	Occupancy costs	1.3 %	1.5 %	1.7 %	Occupancy costs	1.2 %	1.3 %	1.5 %
Supplies	Supplies	4.6 %	4.6 %	4.8 %	Supplies	4.5 %	4.6 %	4.6 %
General and administrative expenses	General and administrative expenses	3.5 %	4.2 %	4.3 %	General and administrative expenses	4.2 %	3.5 %	4.2 %
Depreciation and amortization	Depreciation and amortization	5.6 %	5.5 %	5.7 %	Depreciation and amortization	5.7 %	5.6 %	5.5 %
Government, class action, and related settlements		— %	— %	0.1 %				
Total operating expenses	Total operating expenses	85.5 %	83.6 %	85.2 %				
Total operating expenses						84.8 %	85.5 %	83.6 %

Additional information regarding our operating results is as follows:

For the Year Ended December 31,							Percentage Change	
							2022 vs. 2021	2021 vs. 2020
							2022	2021
							2022	2021
							(In Millions, Except Percentage Change)	
For the Year Ended December 31,							For the Year Ended December 31,	
							2023	2022
							2023	2022
							(In Millions, Except Percentage Change)	
Net operating revenues:	Net operating revenues:							
Inpatient	Inpatient							
Inpatient	Inpatient	\$4,251.6	\$3,918.0	\$3,496.1	8.5 %	12.1 %	\$4,693.8	\$4,251.6
Outpatient and other	Outpatient and other	97.0	96.9	70.2	0.1 %	38.0 %	107.4	97.0
Net operating revenues	Net operating revenues	4,348.6	4,014.9	3,566.3	8.3 %	12.6 %	4,801.2	4,348.6
(Actual Amounts)								
Discharges	Discharges	211,116	197,639	181,897	6.8 %	8.7 %	229,480	211,116
Net patient revenue per discharge	Net patient revenue per discharge	\$20,139	\$19,824	\$19,220	1.6 %	3.1 %	\$20,454	\$20,139
Outpatient visits	Outpatient visits	138,644	161,070	186,257	(13.9)%	(13.5)%	120,835	138,644
Average length of stay (days)	Average length of stay (days)	12.7	12.8	12.9	(0.8)%	(0.8)%	12.4	12.7

Occupancy %	Occupancy %	70.9%	70.0%	67.7%	1.3 %	3.4 %	Occupancy %	72.1%	70.9%	70.0%	1.7
# of licensed beds	# of licensed beds	10,356	9,924	9,505	4.4 %	4.4 %	# of licensed beds	10,778	10,356	9,924	4.1
Full-time equivalents*		24,627	23,193	22,076	6.2 %	5.1 %					
Occupied beds							Occupied beds	7,771	7,342	6,947	5.8
Full-time equivalents (FTEs) - internal							Full-time equivalents (FTEs) - internal	25,850	24,080	22,834	7.4
Contract labor FTEs							Contract labor FTEs	425	547	359	(22.3
Total FTEs*							Total FTEs*	26,275	24,627	23,193	6.7
Employees per occupied bed	Employees per occupied bed	3.35	3.34	3.43	0.3 %	(2.6)%	Employees per occupied bed	3.38	3.35	3.34	0.9

* Full-time equivalents FTEs included in the above table represent our employees who participate in or support the operations of our hospitals and include an estimate of full-time equivalents FTEs related to contract labor.

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

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

2022 2023 Compared to 2021 2022

Net Operating Revenues

Our consolidated *Net operating revenues* increased during 2022 2023 compared to 2021 2022 primarily due to increased volumes and favorable pricing. Discharge growth included a 3.1% 4.8% increase in same-store discharges. Discharge growth from new stores during 2022 2023 compared to 2021 2022 resulted from our joint ventures in San Angelo, Texas (March 2021), Henry County, Georgia (October 2021), Shiloh, Illinois (February 2022), Cape Coral, Florida (June 2022), Moline, Illinois (August 2022), Grand Forks, North Dakota (August 2022), and Naples, Florida (September 2022), Knoxville, Tennessee (March 2023), Eau Claire, Wisconsin (March 2023), Owasso, Oklahoma (March 2023), Bowie, Maryland (June 2023), and Columbus Georgia (September 2023), as well as wholly owned hospitals in North Tampa, Florida (April 2021), Cumming, Georgia (June 2021), Waco, Texas (August 2021), Shreveport, Louisiana (August 2021), Greenville, South Carolina (August 2021), Pensacola, Florida (September 2021), St. Augustine, Florida (March 2022), Libertyville, Illinois (March 2022), Lakeland, Florida (May 2022), and Jacksonville, Florida (June 2022), and Clermont, Florida (April 2023).

Growth in net patient revenue per discharge during 2022 in 2023 compared to 2021 2022 primarily attributable to resulted from an increase in reimbursement rates partially offset by an increase in revenue reserves, the resumption of sequestration on April 1, 2022, and the change in patient mix. Revenue reserves increased during 2023 compared to 2022 as a result of an approximate \$22 million reserve recorded in the fourth quarter of 2023 related to appeals pending before the Departmental Appeals Board and various federal district courts. For additional details on this reserve, see Item 1A, *Risk Factors*, "Reimbursement Risks," and Note 1,

Summary of Significant Accounting Policies, "Net Operating Revenues," to the accompanying consolidated financial statements.

Salaries and Benefits

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

Salaries and benefits increased in terms 2023 compared to 2022 primarily due to salary and benefit cost increases for our employees and increased patient volumes, including an increase in the number of dollars FTEs as a result of our development activities. *Salaries and benefits* decreased as a percent of revenue in 2022 *Net operating revenues* during 2023 compared to 2021 2022 primarily due to increases decreases in both contract labor and clinician compensation, including sign-on and shift bonuses to meet higher patient volumes, and partially offset by the ramping up of new stores. increase in revenue reserves discussed above. Total contract labor plus and sign-on and shift bonuses increased approximately \$70 million from \$134.2 million were \$137.0 million in 2021 2023 as compared to \$204.3 million in 2022 2022.

Other Operating Expenses

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

Other operating expenses increased in terms during 2023 compared 2022 primarily due to increased provider taxes of dollars approximately \$15 million and higher costs resulting from our development activities. Other operating expenses decreased as a percent of Net operating revenues during 2022 2023 compared to 2021 2022 primarily due to increased provider taxes of approximately \$8 million and higher costs associated with recruiting, utilities, and travel of approximately \$26 million volumes.

Supplies

Supplies expense includes all costs associated with supplies used while providing patient care. Specifically, these costs include personal protective equipment ("PPE"), pharmaceuticals, food, syringes, bandages, and other similar items.

Supplies increased during 2022 2023 compared to 2021 2022 primarily due to higher costs for food and medical supplies.

General and Administrative Expenses

General and administrative expenses primarily include administrative expenses such as information technology services, human resources, corporate accounting, legal services, and internal audit and controls that are managed from our home office in Birmingham, Alabama. These expenses also include stock-based compensation expenses and transaction costs, expenses.

General and administrative expenses decreased increased in terms of dollars and as a percent of Net operating revenues during 2022 2023 compared to 2021 2022 primarily due to higher incentive compensation costs and the mark-to-market adjustments on our non-qualified 401k plan, approximately \$2 million related to our transition services agreement with Enhabit, and lower incentive deferred compensation costs. For additional information on the transition services agreement with Enhabit, see Note 2, Spin Off of Home Health and Hospice Business, to the accompanying consolidated financial statements, plan.

Depreciation and Amortization

Depreciation and amortization increased during 2022 2023 compared to 2021 2022 due to our capital investments throughout 2021 2022 and 2022. 2023. Depreciation and amortization in 2023 included \$6.1 million related to the accelerated amortization of the remaining carrying value of certificate of need ("CON") assets in South Carolina. In May 2023, the governor of South Carolina signed into law S.164, which repealed the requirement of certain healthcare providers to obtain and/or maintain a CON.

See "Executive Overview" section of this Item for information related to our development activity. We expect Depreciation and amortization to increase going forward as a result of our recent and ongoing capital investments.

Interest Expense and Amortization of Debt Discounts and Fees

The increase decrease in Interest expense and amortization of debt discounts and fees in 2022 2023 compared to 2021 2022 primarily resulted from the \$20.5 million consent solicitation fee paid to bond holders in June 2022 related to the Spin Off of Enhabit, partially offset by lower interest rate on our revolving credit facility, and the March 2022 redemption extinguishment of the remaining \$100 million term loan facilities in outstanding principal amount of the 5.125% Senior Notes due 2023, June 2022. Cash paid for interest approximated \$148 million and \$178 million in 2023 and \$168 million in 2022, and 2021, respectively. For additional information, see Note 10, Long-term Debt, to the accompanying consolidated financial statements.

Provision for Income Tax Expense

Our Provision for income tax expense decreased increased in 2022 2023 compared to 2021 2022 primarily due to lower higher Income from continuing operations before income tax expense offset by increases to the valuation allowance and equity compensation shortfalls. See also Note 16, Income Taxes, to the accompanying consolidated financial statements, expense.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act") included provisions relating to net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, technical corrections to tax depreciation methods for qualified improvement property, and deferral of employer payroll taxes. The CARES Act did not materially impact our effective tax rate for the year ended December 31, 2022 December 31, 2023 and 2021, 2022, although it has impacted the timing of cash payments for taxes.

Our cash payments for income taxes approximated \$50 \$107 million and \$130 million \$50 million, net of refunds, in 2022 2023 and 2021, 2022, respectively. These payments were based on estimates of taxable income. We estimate we will pay approximately \$85 million \$145 million to \$100 million \$165 million of cash income taxes, net of refunds, in 2023, 2024. These payments are expected to primarily result from federal and state income tax expenses based on estimates of taxable income for 2023, 2024. In 2022 2023 and 2021, 2022, current income tax expense was \$72.2 million \$128.3 million and \$84.5 million \$72.2 million, respectively.

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

See Note 16, Income Taxes, to the accompanying consolidated financial statements and the "Critical Accounting Estimates" section of this Item.

Net Income Attributable to Noncontrolling Interests

The decrease in *Net income attributable to noncontrolling interests* during 2022 compared to 2021 resulted from the ramp up of new joint venture de novo locations. For additional information see the “Executive Overview” section of this Item.

2021 Compared to 2020

Net Operating Revenues

Our consolidated *Net operating revenues* increased in 2021 compared to 2020 primarily due to increased volumes and favorable pricing. Discharge growth included a 6.2% increase in same-store discharges. Discharge growth from new stores during 2021 resulted from our joint ventures in Coralville, Iowa (June 2020), San Angelo, Texas (March 2021), and Henry County, Georgia (October 2021), as well as wholly owned hospitals in Murrieta, California (February 2020), Sioux Falls, South Dakota (June 2020), Toledo, Ohio (November 2020), North Tampa, Florida (April 2021), Cumming, Georgia (June 2021), Waco, Texas (August 2021), Shreveport, Louisiana (August 2021), Greenville, South Carolina (August 2021), and Pensacola, Florida (September 2021). Growth in net patient revenue per discharge during 2021 compared to 2020 primarily resulted from an increase in reimbursement rates, a higher acuity patient mix and the suspension of sequestration starting in May 2020.

The increase in outpatient and other revenue during 2021 compared to 2020 primarily resulted from an increase of \$29.7 million in provider tax revenues (offset by \$17.8 million of provider tax expense increases included in *Other operating expenses*).

Salaries and Benefits

Salaries and benefits in terms of dollars increased in 2021 compared to 2020 primarily due to salary and benefit cost increases for our employees, increased contract labor to meet higher patient volumes, and the ramping up of new stores. *Salaries and benefits* as a percent of *Net operating revenues* decreased in 2021 compared to 2020 primarily due to the additional paid-time-off awarded to employees in the second quarter of 2020 (discussed below) and improved labor productivity (contributing to lower EPOB) partially offset by higher clinician compensation costs due to staffing challenges resulting from the pandemic.

In April 2020, we initiated a program for eligible frontline employees to earn additional paid time off in recognition of their outstanding efforts responding to the pandemic. We accrued approximately \$29 million in salary and benefits expense in the second quarter of 2020 in connection with this award.

Other Operating Expenses

Other operating expenses decreased as a percent of *Net operating revenues* during 2021 compared to 2020 primarily due to the increase in *Net operating revenues* as discussed above.

Supplies

Supplies decreased as a percent of *Net operating revenues* during 2021 compared to 2020 primarily due to the increase in *Net operating revenues* as discussed above.

General and Administrative Expenses

General and administrative expenses increased in terms of dollars during 2021 compared to 2020 primarily due to higher costs associated with incentive compensation. *General and administrative expenses* decreased as a percent of *Net operating revenues* during 2021 compared to 2020 primarily due to the increase in *Net operating revenues* as discussed above.

Depreciation and Amortization

Depreciation and amortization increased during 2021 compared to 2020 due to our capital expenditures and development activities throughout 2020 and 2021.

Interest Expense and Amortization of Debt Discounts and Fees

The decrease in *Interest expense and amortization of debt discounts and fees* in 2021 compared to 2020 primarily resulted from the redemption of approximately \$700 million in November 2020 for the remaining 5.75% Senior Notes due 2024 as well as the April and June 2021 redemptions of \$100 million in outstanding principal amount of the 5.125% Senior Notes due 2023 (the “2023 Notes”). Cash paid for interest approximated \$168 million in 2021 and 2020, respectively. For additional information, see Note 10, *Long-term Debt*, to the accompanying consolidated financial statements.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations in 2021 increased compared to 2020 primarily due to the increase in earnings.

Provision for Income Tax Expense

Our *Provision for income tax expense* increased in 2021 compared to 2020 primarily due to higher *Income from continuing operations before income tax expense*. See also Note 16, *Income Taxes*, to the accompanying consolidated financial statements. The CARES Act, as discussed above, did not materially impact our effective tax rate for the year ended December 31, 2020 and 2021, although it has impacted the timing of future cash payments for taxes.

Our cash payments for income taxes approximated \$130 and \$33 million, net of refunds, in 2021 and 2020, respectively. These payments were based on estimates of taxable income. In 2021 and 2020, current income tax expense was \$84.5 million and \$40.2 million, respectively. See Note 16, *Income Taxes*, to the accompanying consolidated financial statements and the “Critical Accounting Estimates” section of this Item.

Net Income Attributable to Noncontrolling Interests

The increase in Net income attributable to noncontrolling interests during 2021 2023 compared to 2020 2022 resulted from increased profitability from certain existing joint venture hospitals partially offset by the ramp up of new joint venture de novo locations and a \$2.2 million reduction to Net income attributable to noncontrolling interests related to the accelerated amortization of the remaining carrying value of our existing CON assets in South Carolina (discussed above). See the "Executive Overview" section of this Item for additional information on our joint ventures due to the impact of the pandemic on 2020, venture de novo locations.

Impact of Inflation

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

Suppliers pass along rising costs to us in the form of higher prices. In addition, For example, we have experienced higher prices for our medical supplies (including PPE) and food as a result of the pandemic, COVID-19 pandemic, and we continue to experience higher costs in the recent inflationary environment. Our supply chain efforts and our continual focus on monitoring and actively managing medical supplies and pharmaceutical costs has have enabled us to accommodate increased pricing related to supplies and other operating expenses over the past few years. However, we cannot predict our ability to cover future cost increases including increase in the cost of PPE.

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

See Item 1A, Risk Factors, for additional information.

Relationships and Transactions with Related Parties

Related party transactions were not material to our operations in 2023, 2022, 2021, or 2020, 2021, and therefore, are not presented as a separate discussion within this Item.

Liquidity and Capital Resources

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

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

Consistent with these objectives, in March 2022, we redeemed the remaining \$100 million in outstanding principal amount of the 2023 Notes using capacity under our revolving credit facility. Pursuant to the terms of the 2023 Notes, this optional redemption was made at a price of par. As a result of this redemption, we recorded a \$0.3 million Loss on early extinguishment of debt in the first quarter of 2022.

In June 2022, we amended our credit agreement primarily in preparation for the Spin Off of the home health and hospice business. The modifications are described in Note 10, Long-term Debt, to the accompanying consolidated financial statements. On June 30, 2022, Enhabit distributed \$566.6 million to Encompass Health who used it to fully repay both the \$250 million outstanding balance of the Encompass Health revolving credit facility and approximately \$236 million of the Encompass Health term loan. As a result of this repayment, we recorded a \$1.1 million Loss on early extinguishment of debt in the second quarter of 2022. In October 2022, we further amended the credit agreement primarily to extend the maturity date to October 2027. For further details on the June 2022 and October 2022 amendments to our credit agreement, see Note 10, Long-term Debt, to the accompanying consolidated financial statements.

We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2025. We continue to have a strong, well-capitalized balance sheet, including a substantial portfolio of owned real estate, and we have significant availability under our revolving credit facility. We continue to generate strong cash flows from operations, and we have significant flexibility with how we choose to invest our cash and return capital to shareholders.

See Note 10, Long-term Debt, to the accompanying consolidated financial statements, statements, for additional information.

Current Liquidity

As of December 31, 2022 December 31, 2023, we had \$21.8 million \$69.1 million in Cash and cash equivalents. This amount excludes \$31.6 million \$35.1 million in Restricted cash and \$110.0 million \$126.2 million of restricted marketable securities (\$30.9 \$37.6 million included in Other current assets and \$79.1 million \$88.6 million included in

Other long-term assets in our consolidated balance sheet). Our restricted assets pertain primarily to obligations associated with our captive insurance company, as well as obligations we have under agreements with joint venture partners. See Note 5, *Cash and Marketable Securities*, to the accompanying consolidated financial statements.

In addition to *Cash and cash equivalents*, as of **December 31, 2022** **December 31, 2023**, we had approximately **\$912 million** **\$968 million** available to us under our revolving credit facility. Our credit agreement governs the substantial majority of our senior secured borrowing capacity and contains a leverage ratio and an interest coverage ratio as financial covenants. Our leverage ratio is defined in our credit agreement as the ratio of consolidated total debt (less cash on hand) to Adjusted EBITDA for the trailing four quarters. In calculating the leverage ratio under our credit agreement, we are permitted to use pro forma Adjusted EBITDA, the calculation of which includes historical income statement items and pro forma adjustments, subject to certain limitations, resulting from (1) dispositions and repayments or incurrence of debt and (2) investments, acquisitions, mergers, amalgamations, consolidations and other operational changes to the extent such items or effects are not yet reflected in our trailing four-quarter financial statements. Our interest coverage ratio is defined in our credit agreement as the ratio of Adjusted EBITDA to consolidated interest expense, excluding the amortization of financing fees, for the trailing four quarters. As of **December 31, 2022** **December 31, 2023**, the maximum leverage ratio requirement per our credit agreement was 4.75x and the minimum interest coverage ratio requirement was 3.0x, and we were in compliance with these covenants. Based on Adjusted EBITDA for **2022** **2023** and the interest rate in effect under our credit agreement during the three-month period ended **December 31, 2022** **December 31, 2023**, if we had drawn on the first day and maintained the maximum amount of outstanding draws under our revolving credit facility for the entire year, we would still be in compliance with the maximum leverage ratio and minimum interest coverage ratio requirements.

On **December 9, 2021** **February 21, 2024**, we announced the commencement Change Healthcare, a subsidiary of UnitedHealth Group that acts as an intermediary for processing our payment claims for all payors, notified us of a **consent solicitation** cybersecurity incident. In response to the incident, both we and Change Healthcare severed those business service connections between our systems and Change Healthcare's. The Change Healthcare incident has not affected our operations, except our ability to submit payment claims. In the event the Change Healthcare service is not restored in a timely fashion, we may experience payment collection delays as we turn to alternative channels to submit claims. As of **holders** the date hereof, the incident has affected six business days of billings and could, depending on the timing of Change Healthcare restoring its service or our **5.75% Senior Notes due 2025**, **4.50% Senior Notes due 2028** (the "2028 Notes"), **4.75% Senior Notes due 2030** (the "2030 Notes"), full implementation of alternative claims submission arrangements, result in an increase in our patient accounts receivable balances and **4.625% Senior Notes due 2031** (the "2031 Notes") a decrease in our *Net cash provided by operating activities* in the first quarter of 2024. We would expect to fund any increase in working capital resulting from the billing and collectively the "Notes") for the adoption payment disruption through cash on hand and draws on our revolving credit facility, which had an available balance of certain amendments to an indenture (the "Base Indenture") dated approximately \$968 million as of December 1, 2009, as supplemented by each Notes' respective supplemental indenture (together with the Base Indenture, the "Indenture"), which provided us with greater flexibility in effecting the Spin Off discussed in the "Executive Overview" section of this Item. Each Indenture contains restrictive covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to make certain asset dispositions, investments, and distributions to holders of our capital stock. The amendments to the Indentures permit us, subject to the leverage ratio condition set forth below, to distribute to our equity holders in one or more transactions (a "Distribution") some or all of the common stock of a subsidiary that holds substantially all of the assets of our home health and hospice business. We may make any such distribution so long as the Leverage Ratio (as defined in each Indenture) is no more than 3.5 to 1.0 on a pro forma basis after giving effect thereto. The amendments also reduce the capacity under our restricted payments builder basket under each existing Indenture for the 2028 Notes, 2030 Notes, and 2031 Notes by \$200 million and amends the definition of "Consolidated Net Income" to allow us to exclude from Consolidated Net Income (a component of the Leverage Ratio) any fees, expenses or charges related to any Distribution and the solicitation of consents from the holders of the Notes. In December 2021 and January 2022, we received the requisite consents for the adoption of these amendments. Under the terms of the amendments, we agreed to pay the holders of the Notes a total of \$40.5 million, excluding fees. We paid \$20.0 million and \$20.5 million in January and June 2022, respectively, date hereof.

We do not face near-term refinancing risk, as the amounts outstanding under our credit agreement do not mature until 2027, and our bonds all mature in 2025 and beyond. See the "Contractual Obligations" section below for information related to our contractual obligations as of **December 31, 2022** **December 31, 2023**.

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

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

Sources and Uses of Cash

The following table shows the cash flows provided by or used in operating, investing, and financing activities of continuing operations (in millions):

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
Net cash provided by operating activities	Net cash provided by operating activities	\$ 653.5	\$ 564.7	\$ 668.9			

Net cash used in investing activities	Net cash used in investing activities	(623.5)	(547.1)	(404.5)
Net cash used in financing activities	Net cash used in financing activities	(660.8)	(229.9)	(134.3)
(Decrease) increase in cash, cash equivalents, and restricted cash		<u>\$(630.8)</u>	<u>\$(212.3)</u>	<u>\$130.1</u>
Increase (decrease) in cash, cash equivalents, and restricted cash				

2022 2023 Compared to 2021 2022

Operating activities. The increase in *Net cash provided by operating activities* of continuing operations during 2022 2023 compared to 2021 2022 primarily resulted from lower cash tax payments and improved collection of accounts receivable, including the recovery of \$12.5 million of previously denied Medicare claims (as discussed an increase in Note 1, *Summary of Significant Accounting Policies Net income* which was driven by growth in *Net operating revenues*, "Net Operating Revenues," to the accompanying consolidated financial statements). and an increase in payroll accruals.

Investing activities. The increase decrease in *Net cash used in investing activities* of continuing operations during 2022 2023 compared to 2021 2022 primarily resulted from increased decreased purchases of property and equipment and restricted investments.

Financing activities. The increase decrease in *Net cash used in financing activities* of continuing operations during 2022 2023 compared to 2021 2022 primarily resulted from increased a decrease in net debt payments. For additional information, see payments and dividends paid on common stock. Net debt payments in 2022 included the full repayment of both the \$250 million outstanding balance of the revolving credit facility and approximately \$236 million of the term loan as part of the Spin Off. See Note 10, *Long-term Debt*, to the accompanying consolidated financial statements.

2021 Compared statements, for additional information related to 2020

Operating activities. The decrease in *Net cash provided by operating activities* of continuing operations during 2021 compared our debt, and the "Authorizations for Returning Capital to 2020 primarily resulted from the decrease in payroll accruals partially offset by the increase in *Net income* (see the "Results of Operations" Stakeholders" section of this Item). The decrease in payroll accruals was attributable to the award of additional paid time off to employees during the second quarter of 2020 in response to the pandemic and the deferral of payroll taxes resulting from government relief efforts during the pandemic. Half of the payroll taxes were paid in December 2021, with the remaining half paid in December 2022.

Investing activities. The increase in *Net cash used in investing activities* of continuing operations during 2021 compared to 2020 primarily resulted from the increased purchases of property and equipment.

Financing activities. The increase in *Net cash used in financing activities* of continuing operations during 2021 compared to 2020 primarily resulted from increased net debt payments partially offset by the purchase of equity interests held by management investors of our former home health and hospice business during the first quarter of 2020. For Item for additional information see Note 10, *Long-term Debt*, and Note 12, *Redeemable Noncontrolling Interests*, related to the accompanying consolidated financial statements, our dividends.

Contractual Obligations

Our consolidated contractual obligations as of December 31, 2022 December 31, 2023 are as follows (in millions):

	Total	Current	Long-term	Total	Current	Long-term
Long-term debt obligations:						

Long-term debt, excluding revolving credit facility and finance lease obligations (a)	\$2,352.2	\$	5.7	\$2,346.5
Revolving credit facility	55.0	—		55.0

Long-term debt, excluding finance lease obligations (a)				
Long-term debt, excluding finance lease obligations (a)				
Long-term debt, excluding finance lease obligations (a)				
Interest on long-term debt (b)				
Interest on long-term debt (b)				

Interest on long-term debt (b)	Interest on long-term debt (b)	687.9	120.5	567.4
Finance lease obligations (c)	Finance lease obligations (c)	551.0	45.6	505.4
Operating lease obligations (d)	Operating lease obligations (d)	302.4	38.4	264.0
Purchase obligations (e)	Purchase obligations (e)	91.7	29.6	62.1
Total	Total	\$4,040.2	\$239.8	\$3,800.4

- (a) Included in long-term debt are amounts owed on our bonds payable and other notes payable. These borrowings are further explained in Note 10, *Long-term Debt*, to the accompanying consolidated financial statements.
- (b) Interest on our fixed rate debt is presented using the stated interest rate. Interest expense on our variable rate debt is estimated using the rate in effect as of December 31, 2022. Interest pertaining to our credit agreement and bonds is included to their respective ultimate maturity dates. Interest related to finance lease obligations is excluded from this line (see Note 8, *Leases*, and Note 10, *Long-term Debt*, to the accompanying consolidated financial statements). Amounts exclude amortization of debt discounts, amortization of loan fees, or fees for lines of credit that would be included in interest expense in our consolidated statements of comprehensive income.
- (c) Amounts include interest portion of future minimum finance lease payments.
- (d) We lease approximately 10% 9% of our hospitals as well as other property and equipment under operating leases in the normal course of business. Amounts include interest portion of future minimum operating lease payments. For more information, see Note 8, *Leases*, to the accompanying consolidated financial statements.
- (e) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on Encompass Health and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Our purchase obligations primarily relate to software licensing and support and medical equipment. Purchase obligations are not recognized in our consolidated balance sheet.

Our capital expenditures include costs associated with our hospital refresh renovation program, *de novo* projects, capacity expansions, technology initiatives, and building and equipment upgrades and purchases. During the year ended December 31, 2022 December 31, 2023, we made capital expenditures of approximately \$584 million \$583 million for property, and equipment, capitalized software, and other intangible assets. During 2023, 2024, we expect to spend approximately \$565 million \$580 million to \$605 million \$610 million for capital expenditures using cash on hand and borrowings under our revolving credit facility. Approximately \$230 million \$185 million to \$240 million \$195 million of this budgeted amount is considered nondiscretionary expenditures, which we may refer to in other filings as “maintenance” expenditures. Actual amounts spent will be dependent upon the timing of development projects.

Authorizations for Returning Capital to Stakeholders

In October 2021, 2022, February 2022, 2023, May 2023, July 2023, and May 2022, our board of directors declared cash dividends of \$0.28 per share that were paid in January 2022, April 2022, and July 2022, respectively. In July 2022, our board of directors revised our quarterly dividend in response to the Spin Off of Enhabit and declared a cash dividend of \$0.15 per share that was paid in October 2022. Also in October 2022, 2023, our board of directors declared cash dividends of \$0.15 per share that was/were paid in January 2023, 2023, April 2023, July 2023, October 2023, and January 2024, respectively. We expect quarterly dividends to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board of directors after consideration of various factors, including our capital position and alternative uses of funds. Cash dividends are expected to be funded using cash flows from operations, cash on hand, and availability under our revolving credit facility.

On October 28, 2013, we announced our board of directors authorized the repurchase of up to \$200 million of our common stock, which amount was subsequently increased to \$250 million. On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to \$250 million. As of December 31, 2022, approximately \$198 million remained under this authorization. The repurchase authorization does not require the repurchase of a specific number of shares,

has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Supplemental Guarantor Financial Information

Our indebtedness under our credit agreement and the Notes are guaranteed by certain consolidated subsidiaries. These guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. The Notes are guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our credit agreement and other capital markets debt. The other subsidiaries of Encompass Health do not guarantee the Notes (such subsidiaries are referred to as the "non-guarantor subsidiaries").

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement, and (2) either (a) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 2x and our leverage ratio (as defined in our credit agreement) remains less than or equal to 4.50x or (b) our leverage ratio remains in compliance with the leverage ratio covenant and there is capacity under the Available Amount as defined in the credit agreement. The terms of our Senior Notes (defined below) indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture's restricted payments covenant to declare and pay dividends. See Note 10, *Long-term Debt*, to the accompanying consolidated financial statements.

On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to \$250 million. As of December 31, 2023, approximately \$198 million remained under this authorization. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Supplemental Guarantor Financial Information

Our indebtedness under our credit agreement and the 5.75% Senior Notes due 2025, 4.50% Senior Notes due 2028, 4.75% Senior Notes due 2030, and 4.625% Senior Notes due 2031, (collectively, the "Senior Notes") are guaranteed by certain consolidated subsidiaries. These guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. The Senior Notes are guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our credit agreement and other capital markets debt. The other subsidiaries of Encompass Health do not guarantee the Senior Notes (such subsidiaries are referred to as the "non-guarantor subsidiaries").

Summarized financial information is presented below for Encompass Health, the parent company, and the subsidiary guarantors on a combined basis after elimination of intercompany transactions and balances among Encompass Health and the subsidiary guarantors and does not include investments in and equity in the earnings of non-guarantor subsidiaries.

		For the Year Ended December 31, 2022 December 31, 2023
		(In Millions)
Net operating revenues	\$	2,819.4
Intercompany revenues generated from non-guarantor subsidiaries		78.7
Total net operating revenues	\$	2,898.1
Operating expenses	\$	2,496.0
Intercompany expenses incurred in transactions with non-guarantor subsidiaries		31.9
Total operating expenses	\$	2,527.9
Income from continuing operations	\$	135.7
Net income	\$	98.0
Net income attributable to Encompass Health	\$	96.8

		As of December 31, 2022 December 31, 2023
		(In Millions)
Total current assets	\$	469.2
Property and equipment, net	\$	2,004.5
Goodwill		902.6
Intercompany receivable due from non-guarantor subsidiaries		255.0
Other noncurrent assets		509.1
Total noncurrent assets	\$	3,671.2
Total current liabilities	\$	438.4
Long-term debt, net of current portion	\$	2,670.6
Other noncurrent liabilities		349.7
Total noncurrent liabilities	\$	3,020.3

Adjusted EBITDA

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

We use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated basis is important in analyzing our liquidity because it is the key component of certain material covenants contained within our credit agreement, which is discussed in more detail in Note 10, *Long-term Debt*, to the accompanying consolidated financial statements. These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under our credit agreement—our interest coverage ratio and our leverage ratio—could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, which would have some cost to us, and such relief might be on terms less favorable to us than those in our existing credit agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under our credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying common stock dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to our assessment of our liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, therein referred to as “Adjusted Consolidated EBITDA,” allows us to add back to consolidated *Net income* interest expense, income taxes, and depreciation and amortization and then add back to consolidated *Net income* (1) all unusual or nonrecurring items reducing consolidated *Net income* (of which only up to \$10 million in a year may be cash expenditures), (2) any losses from discontinued operations, (3) non-ordinary course fees, costs and expenses incurred with respect to any litigation or settlement, (4) share-based compensation expense, (5) costs and expenses associated with changes in the fair value of marketable securities, (6) costs and expenses associated with the issuance or prepayment of debt, and acquisitions, and (7) any restructuring charges and certain pro forma cost savings and synergies related to transactions and initiatives, which in the aggregate are not in excess of 25% of Adjusted Consolidated EBITDA. We also subtract from consolidated *Net income* all unusual or nonrecurring items to the extent they increase consolidated *Net income*.

Under the credit agreement, the Adjusted EBITDA calculation does not require us to deduct net income attributable to noncontrolling interests or gains on fair value adjustments of hedging and equity instruments, disposal of assets, and development activities. It also does not allow us to add back losses on fair value adjustments of hedging

instruments or unusual or nonrecurring cash expenditures in excess of \$10 million. These items and amounts, in addition to the items falling within the credit agreement's "unusual or nonrecurring" classification, may occur in future periods, but can vary significantly from period to period and may not directly relate to, or be indicative of, our ongoing liquidity or operating performance. Accordingly, the Adjusted EBITDA calculation presented here includes adjustments for them.

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

Our Adjusted EBITDA for the years ended December 31, 2022, 2021, and 2020 was as follows (in millions):

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
Net cash provided by operating activities	Net cash provided by operating activities	\$705.8	\$715.8	\$704.7			
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	175.7	164.3	183.7			
(Loss) gain on sale of investments, excluding impairments	(Loss) gain on sale of investments, excluding impairments	(15.5)	3.8	3.6			
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees						
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees						
Gain (loss) on sale of investments, excluding impairments	Gain (loss) on sale of investments, excluding impairments						
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	2.9	3.4	2.9			
Net income attributable to noncontrolling interests in continuing operations	Net income attributable to noncontrolling interests in continuing operations	(93.6)	(103.2)	(83.3)			
Amortization of debt-related items	Amortization of debt-related items	(9.7)	(7.8)	(7.2)			
Distributions from nonconsolidated affiliates	Distributions from nonconsolidated affiliates	(4.0)	(2.6)	(3.4)			
Current portion of income tax expense	Current portion of income tax expense	72.2	84.5	40.2			

Change in assets and liabilities	Change in assets and liabilities	30.4	109.9	(108.0)
Cash provided by operating activities of discontinued operations		(52.3)	(151.1)	(35.8)
Cash used in (provided by) operating activities of discontinued operations				
Cash used in (provided by) operating activities of discontinued operations				
Cash used in (provided by) operating activities of discontinued operations				
State regulatory change impact on noncontrolling interests				
State regulatory change impact on noncontrolling interests				
State regulatory change impact on noncontrolling interests				
Change in fair market value of equity securities	Change in fair market value of equity securities	7.4	(0.6)	(0.4)
Other		—	—	0.1
Adjusted EBITDA	Adjusted EBITDA	\$819.3	\$816.4	\$697.1
Adjusted EBITDA				
Adjusted EBITDA				

Reconciliation of Net Income to Adjusted EBITDA

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
Net income	Net income	\$365.9	\$517.2	\$368.8			
Income from discontinued operations, net of tax, attributable to Encompass Health		(15.2)	(114.1)	(90.6)			
Loss (income) from discontinued operations, net of tax, attributable to Encompass Health							
Net income attributable to noncontrolling interests included in continuing operations	Net income attributable to noncontrolling interests included in continuing operations	(93.6)	(103.2)	(83.3)			

Provision for income tax expense	Provision for income tax expense	100.1	101.9	74.7
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	175.7	164.3	183.7
Loss on early extinguishment of debt	Loss on early extinguishment of debt	1.4	1.0	2.3
Government, class action, and related settlements		—	—	2.8
Loss on disposal or impairment of assets				
Loss on disposal or impairment of assets				
Loss on disposal or impairment of assets	Loss on disposal or impairment of assets	4.8	1.2	10.5
Depreciation and amortization	Depreciation and amortization	243.6	219.6	203.0
Stock-based compensation expense		29.2	29.1	25.6
Stock-based compensation				
State regulatory change impact on noncontrolling interests				
State regulatory change impact on noncontrolling interests				
State regulatory change impact on noncontrolling interests				
Change in fair market value of equity securities	Change in fair market value of equity securities	7.4	(0.6)	(0.4)
Adjusted EBITDA	Adjusted EBITDA	\$819.3	\$816.4	\$697.1
Adjusted EBITDA				
Adjusted EBITDA				

For additional information see the “Results of Operations” section of this Item.

Critical Accounting Estimates

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

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

Revenue Recognition

We recognize net operating revenue in the reporting period in which we perform the service based on our best estimate of the transaction price for the type of service provided to the patient. Our estimate of the transaction price includes estimates of price concessions for such items as contractual allowances (principally for patients covered by Medicare, Medicare Advantage, Medicaid, and other third-party payors), potential adjustments that may arise from payment and other reviews, and uncollectible amounts. See Note 1, *Summary of Significant Accounting Policies*, "Net Operating Revenues," to the accompanying consolidated financial statements of this report for a complete discussion of our revenue recognition policies.

Our patient accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Certain other factors that are considered and could influence the estimated transaction price are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes, and additional adjustments are provided to account for these factors.

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

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

The collection of outstanding receivables from third-party payors and patients is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to patient responsibility amounts and claims reviews conducted by MACs or other contractors.

The table below shows a summary of our net accounts receivable balances as of **December 31, 2022**, **December 31, 2023** and **2021, 2022**. Information on the concentration of total patient accounts receivable by payor class can be found in Note 1, *Summary of Significant Accounting Policies*, "Accounts Receivable," to the accompanying consolidated financial statements.

		As of December 31,		As of December 31,	
		2022	2021	2023	2022
		(In Millions)		(In Millions)	
Current:	Current:				
0 - 30 Days	0 - 30 Days				
0 - 30 Days	0 - 30 Days	\$381.9	\$356.4		
31 - 60 Days	31 - 60 Days	48.0	47.8		
61 - 90 Days	61 - 90 Days	22.0	27.4		
91 - 120 Days	91 - 120 Days	16.3	16.5		
120 + Days	120 + Days	56.6	54.0		
Patient accounts receivable	Patient accounts receivable	524.8	502.1		
Other accounts receivable	Other accounts receivable	12.0	13.7		
		536.8	515.8		
		611.6			
Noncurrent patient accounts receivable	Noncurrent patient accounts receivable	73.3	77.4		
Accounts receivable	Accounts receivable	\$610.1	\$593.2		

Changes in general economic conditions (such as increased unemployment rates or periods of recession), business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable. Our collection risks include patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and co-payments) remain outstanding, pre-payment claim reviews by our respective MACs, and reimbursement claims audits by governmental or other payors and their agents. As of **December 31, 2022**, **December 31, 2023** and **2021, 2022, \$21.0 million and \$73.6 million and \$77.8 million**, respectively, of our patient accounts receivable represented denials that were under review or audit. If actual results

are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. See Note 1, *Summary of Significant Accounting Policies*, “Net Operating Revenues” and “Accounts Receivable,” to the accompanying consolidated financial statements of this report.

Self-Insured Risks

We are self-insured for certain losses related to professional liability, general liability, and workers’ compensation risks. Although we obtain third-party insurance coverage to limit our exposure to these claims, a substantial portion of our professional liability, general liability, and workers’ compensation risks are insured through a wholly owned insurance subsidiary. See Note 11, *Self-Insured Risks*, to the accompanying consolidated financial statements for a more complete discussion of our self-insured risks.

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

Periodically, we review our assumptions and the valuations provided by third-party actuaries to determine the adequacy of our self-insurance reserves. The following are certain of the key assumptions and other factors that significantly influence our estimate of self-insurance reserves: historical claims experience; trending of loss development factors; trends in the frequency and severity of claims; coverage limits of third-party insurance; demographic information; statistical confidence levels; medical cost inflation; payroll dollars; and hospital patient census.

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

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

Net self-insurance reserves as of December 31, 2022 December 31, 2023:	
As reported, with 50% statistical confidence level	142.8 148.1
With 70% statistical confidence level	153.9 157.9

We believe our efforts to improve patient safety and overall quality of care, as well as our efforts to reduce workplace injuries, have helped contain our ultimate claim costs. See Note 11, *Self-Insured Risks*, to the accompanying consolidated financial statements for additional information.

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

Goodwill

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

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

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

See Note 1, *Summary of Significant Accounting Policies*, “Goodwill and Other Intangibles,” and Note 9, *Goodwill and Other Intangible Assets*, to the accompanying consolidated financial statements for additional information.

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

- macroeconomic conditions, such as deterioration in general economic conditions, limitations on accessing capital, or other developments in equity and credit markets;

- industry and market considerations and changes in healthcare regulations, including reimbursement and compliance requirements under the Medicare and Medicaid programs;
- cost factors, such as an increase in labor, supply, or other costs;
- overall financial performance, such as negative or declining cash flows or a decline in actual or forecasted revenue or earnings;
- other relevant company-specific events, such as material changes in management or key personnel or outstanding litigation;
- material events, such as a change in the composition or carrying amount of each reporting unit's net assets, including acquisitions and dispositions;
- consideration of the relationship of our market capitalization to our book value, as well as a sustained decrease in our share price; and
- length of time since most recent quantitative analysis.

In the fourth quarter of 2022, 2023, we performed our annual evaluation of goodwill and determined no adjustment to impair goodwill was necessary. If actual results are not consistent with our assumptions and estimates, we may be exposed to goodwill impairment charges. However, at this time, we continue to believe our inpatient rehabilitation unit is not at risk for any impairment charges.

Income Taxes

We provide for income taxes using the asset and liability method. We also evaluate our tax positions and establish assets and liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. See Note 1, *Summary of Significant Accounting Policies*, "Income Taxes," and Note 16, *Income Taxes*, to the accompanying consolidated financial statements for a more complete discussion of income taxes and our policies related to income taxes.

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

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

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

During the year ended December 31, 2022, December 31, 2023, we decreased our valuation allowance by \$7.3 million \$7.4 million. As of December 31, 2022, December 31, 2023, we had a remaining valuation allowance of \$35.8 million \$28.4 million which primarily related to state net operating losses. At the state jurisdiction level, we unusable foreign tax credits generated by our operations in Puerto Rico. We determined it was necessary to maintain a valuation allowance on our foreign tax credits due to uncertainties related to our ability to utilize a portion of the net operating losses these credits before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence, as described above, including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable.

While management believes the assumptions included in its forecast of future earnings are reasonable and it is more likely than not the net deferred tax asset balance as of December 31, 2022 will be realized, no such assurances can be provided. If management's expectations for future operating results on a consolidated basis or at the state jurisdiction level vary from actual results due to changes in healthcare regulations, general economic conditions, or other factors, we may need to increase our valuation allowance, or reverse amounts recorded currently in the valuation allowance, for all or a portion of our deferred tax assets. Similarly, future adjustments to our valuation allowance may be necessary if the timing of future tax deductions is different than currently expected. Our income tax expense in future periods will be reduced or increased to the extent of offsetting decreases or increases, respectively, in our valuation allowance in the period when the change in circumstances occurs. These changes could have a significant impact on our future earnings.

Assessment of Loss Contingencies

We have legal and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. See Note 1, *Summary of Significant Accounting Policies*, "Litigation Reserves," and Note 18, *Contingencies and Other Commitments*, to the accompanying consolidated financial statements for additional information.

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

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

HCS, Ltd., our wholly owned insurance captive maintains positions in investment securities for other than trading purposes, which, as of December 31, 2023, had a fair market value of approximately \$126 million. Changes in the value of these securities is recorded in the accompanying consolidated statements of comprehensive income. During the year ended December 31, 2023, we recorded an unrealized gain of \$1.3 million pertaining to these securities. For additional information, see Note 5, *Cash and Marketable Securities*, and Note 13, *Fair Value Measurements*, to the accompanying consolidated financial statements. Our primary exposure to market risk is to changes in interest rates on our variable rate long-term debt. We use a sensitivity analysis model to evaluate the impact of interest rate changes on our variable rate debt. As of December 31, 2022, no amount was outstanding on our primary variable rate debt outstanding related to \$55.0 million in advances under our revolving credit facility. Assuming outstanding balances were to remain the same, a 1% increase in interest rates would result in an incremental negative cash flow of approximately \$0.6 million over the next 12 months, while a 1% decrease in interest rates, assuming a floor of zero in the variable rate index, would result in an incremental positive cash flow of approximately \$0.6 million over the next 12 months. HCS, Ltd., our wholly owned insurance captive maintains positions in investment securities for other than trading purposes, which, as of December 31, 2022, had a fair market value of approximately \$110 million. Changes in the value of these securities is recorded in the accompanying consolidated statements of comprehensive income. During the year ended December 31, 2022, we recorded an unrealized loss of \$7.4 million pertaining to these securities. For additional information, see Note 5, *debt.Cash and Marketable Securities*, and Note 13, *Fair Value Measurements*, to the accompanying consolidated financial statements.

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

		December 31, 2022		December 31, 2021						December 31, 2023		December 31, 2023		December 31, 2022	
Financial Instrument:	Financial Instrument:	Book Value	Market Value	Book Value	Market Value	Financial Instrument:	Book Value	Market Value		Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
5.125% Senior Notes due 2023															
5.75% Senior Notes due 2025															
Carrying Value	Carrying Value	\$ —	\$ —	\$99.6	\$ —										
Unamortized debt discount and fees		—	—	0.4	—										
Principal amount		—	—	100.0	100.2										
5.75% Senior Notes due 2025															
Carrying Value															
Carrying Value	Carrying Value	347.7	—	347.0	—										
Unamortized debt discount and fees	Unamortized debt discount and fees	2.3	—	3.0	—										
Principal amount	Principal amount	350.0	347.7	350.0	357.9										
4.50% Senior Notes due 2028	4.50% Senior Notes due 2028														
Carrying Value	Carrying Value	781.8	—	786.8	—										
Carrying Value															
Unamortized debt discount and fees	Unamortized debt discount and fees	18.2	—	13.2	—										
Principal amount	Principal amount	800.0	726.7	800.0	823.0										

4.75% Senior Notes due 2030	4.75% Senior Notes due 2030				
Carrying Value					
Carrying Value					
Carrying Value	Carrying Value	779.0	—	784.7	—
Unamortized debt discount and fees	Unamortized debt discount and fees	21.0	—	15.3	—
Principal amount	Principal amount	800.0	703.7	800.0	824.0
4.625% Senior Notes due 2031	4.625% Senior Notes due 2031				
Carrying Value	Carrying Value	390.6	—	393.7	—
Carrying Value					
Carrying Value					
Unamortized debt discount and fees	Unamortized debt discount and fees	9.4	—	6.3	—
Principal amount	Principal amount	400.0	342.2	400.0	407.0

Foreign operations, and the related market risks associated with foreign currencies, are currently, and have been, insignificant to our financial position, results of operations, and cash flows. See also Note 10, *Long-term Debt*, and Note 13, *Fair Value Measurements*, to the accompanying consolidated financial statements.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of **December 31, 2022** **December 31, 2023**, our disclosure controls and procedures were effective.

Management’s Report on Internal Control Over Financial Reporting

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

evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of **December 31, 2022** **December 31, 2023**. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, the COSO framework. Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of **December 31, 2022** **December 31, 2023**, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of **December 31, 2022** **December 31, 2023** has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended **December 31, 2022** **December 31, 2023** that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Insider Trading Arrangements

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None applicable.

PART III

We expect to file a definitive proxy statement relating to our **2023** **2024** Annual Meeting of Stockholders (the "**2023** **2024** Proxy Statement") with the United States Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after the end of our most recent fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only the information from the **2023** **2024** Proxy Statement that specifically addresses disclosure requirements of Items 10-14 below is incorporated by reference.

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 is hereby incorporated by reference from our **2023** **2024** Proxy Statement under the captions "Items of Business Requiring Your Vote—Proposal 1—Election of Directors," "Corporate Governance and Board Structure—Corporate Governance—Code of Ethics," "—Insider Trading Policy," "—Board Structure and Committees—Audit Committee," "—Board Composition and Director Nomination Process—Director Nominees Proposed by Stockholders," and "Executive Officers."

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our **2023** **2024** Proxy Statement under the captions "Corporate Governance and Board Structure—Compensation of Directors," "Compensation and Human Capital Committee Matters," and "Executive **Compensation**. **Compensation**," except as to the information under the "Pay vs. Performance" caption which is only required to be disclosed in the proxy statement pursuant to Item 402(v) of Regulation S-K.

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

The information required by Item 12 is hereby incorporated by reference from our **2023** **2024** Proxy Statement under the captions "Executive Compensation—Equity Compensation Plans" and "Security Ownership of Certain Beneficial Owners and Management."

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is hereby incorporated by reference from our **2023** **2024** Proxy Statement under the captions "Corporate Governance and Board Structure—Director Independence" and "Certain Relationships and Related Transactions."

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our **2023** **2024** Proxy Statement under the caption "Items of Business Requiring Your Vote—Proposal 2—Ratification of Appointment of Independent Registered Public Accounting Firm."

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

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

Financial Statement Schedules

None.

Exhibits

See Exhibit Index immediately following page F-53 F-49 of this report.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

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

ENCOMPASS HEALTH CORPORATION

By: /s/ MARK J. TARR
Mark J. Tarr
President and Chief Executive Officer

Date: February 27, 2023 28, 2024

[Signatures continue on the following page]

POWER OF ATTORNEY

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

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

Signature	Capacity	Date
<u>/s/ MARK J. TARR</u> Mark J. Tarr	President and Chief Executive Officer and Director	February 27, 2023 28, 2024
<u>/s/ DOUGLAS E. COLTHARP</u> Douglas E. Coltharp	Executive Vice President and Chief Financial Officer	February 27, 2023 28, 2024
<u>/s/ ANDREW L. PRICE</u> Andrew L. Price	Chief Accounting Officer	February 27, 2023 28, 2024
<u>/s/ DONALD L. CORRELL</u> Donald L. Correll	Chairman of the Board of Directors	February 27, 2023 28, 2024
<u>/s/ GREG D. CARMICHAEL</u> Greg D. Carmichael	Director	February 27, 2023 28, 2024
<u>/s/ JOHN W. CHIDSEY</u> John W. Chidsey	Director	February 27, 2023 28, 2024
<u>/s/ Edward M. CHRISTIE III</u> Edward M. Christie III	Director	February 28, 2024
<u>/s/ JOAN E. HERMAN</u> Joan E. Herman	Director	February 27, 2023 28, 2024
<u>/s/ LESLYE G. KATZ</u> Leslye G. Katz	Director	February 27, 2023 28, 2024
<u>/s/ PATRICIA A. MARYLAND</u> Patricia A. Maryland	Director	February 27, 2023 28, 2024
<u>/s/ KEVIN J. O'CONNOR</u> Kevin J. O'Connor	Director	February 27, 2023 28, 2024
<u>/s/ CHRISTOPHER R. REIDY</u> Christopher R. Reidy	Director	February 27, 2023 28, 2024
<u>/s/ NANCY M. SCHLICHTING</u> Nancy M. Schlichting	Director	February 27, 2023 28, 2024
<u>/s/ TERRANCE WILLIAMS</u> Terrance Williams	Director	February 27, 2023 28, 2024

Item 15. Financial Statements

Report of Independent Registered Public Accounting Firm (PCAOB ID 238)	F-2
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2022 2023	F-5
Consolidated Balance Sheets as of December 31, 2022 December 31, 2023 and 2021 2022	F-6
Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2022 2023	F-7
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2022 2023	F-8
Notes to Consolidated Financial Statements	F-10

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Encompass Health Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Encompass Health Corporation and its subsidiaries (the "Company") as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, and the related consolidated statements of comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023**, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, and the results of its operations and its cash flows for each of the three years in the period ended **December 31, 2022** **December 31, 2023** in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Patient Accounts Receivable - Contractual Allowances and Uncollectible Amounts

As described in Notes 1 and 6 to the consolidated financial statements, revenues are recognized (or measured) using the input method as therapy, nursing, and auxiliary services are provided based on management's estimate of the respective transaction price. Management's estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, potential adjustments that may arise from payment and other reviews, and uncollectible amounts. Revenues recognized are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related patient accounts receivable. Factors considered by management in determining the estimated transaction price include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors.

Management assumes these factors will remain consistent with the experience for patients discharged in similar time periods for the same payor classes. The Company's consolidated accounts receivable balance is \$610.1 million \$632.5 million as of December 31, 2022 December 31, 2023. Management estimates the allowance for uncollectible amounts based on the aging of accounts receivable, historical collection experience for each type of payor, and other relevant factors. As disclosed by management, changes in general economic conditions are also considered.

The principal considerations for our determination that performing procedures relating to the valuation of patient accounts receivable – contractual allowances and uncollectible amounts is a critical audit matter are the significant judgment by management to estimate patient accounts receivable and the amount that will ultimately be collected under the terms of the third-party payor contracts, which in turn led to significant auditor judgment and effort to evaluate the audit evidence obtained related to the valuation of patient accounts receivable.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of patient accounts receivable related to contractual allowances and uncollectible amounts, which included controls over management's process, assumptions, and data used to estimate contractual allowances and uncollectible amounts and determine patient accounts receivable. These procedures also included, among others, i) evaluating management's process for developing the estimate for contractual allowances and uncollectible amounts, ii) testing the completeness and accuracy of underlying data used in the model, iii) evaluating the historical accuracy of management's process for developing the estimate of the amount which will ultimately be collected by comparing actual cash collections to the previously recorded patient accounts receivable, and iv) developing an independent expectation of the amount expected to be collected by management. Developing an independent expectation involved calculating the percentage of cash collections as compared to the recorded patient accounts receivable balance for prior years and comparing that percentage to management's collection expectation used to determine the current year estimate for contractual allowances and uncollectible amounts.

Valuation of Patient Accounts Receivable - Denied Claims

As described in Note 1 to the consolidated financial statements, the Company's Medicare claims have been subject to review by Medicare Administrative Contractors ("MACs") under various programs such as "widespread probes" and the Targeted Probe and Educate initiative. The MACs reviews have resulted in denial of payment for claims billed under certain diagnosis codes. As of December 31, 2022, \$73.6 million of the Company's patient accounts receivable represented denials that were under review or audit. While the Company generally appeals most of the denials of claims by the MACs, the Medicare appeals adjudication process, which is administered by the Office of Medicare Hearings and Appeals ("OMHA"), has been subject to significant delay resulting in a backlog of claims awaiting hearing, the resolution adjudication. As of which may take several years. December 31, 2023, there were approximately \$38.3 million in denied claims that were under review or audit. As disclosed in Note 1, the Company's historical experience and success in the adjudication of these appeals is a component of management's estimate of the transaction price.

The principal considerations for our determination that performing procedures relating to the valuation of patient accounts receivable – denied claims is a critical audit matter are the significant judgment by management to estimate the ultimate expected amount of collectible accounts receivable related to denied claims. This in turn led to a high degree of auditor judgment and effort to evaluate the audit evidence obtained related to the valuation of such denied claims.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of patient accounts receivable related to denied claims, which included controls around the identification of denied claims at period-end, as well as controls to assess the reasonableness of the success rate estimates. These procedures also included, among others, i) evaluating management's process for developing the estimate for collectible amounts related to denied claims, as well as the relevance and use of the historical billing and collection data as an input to the valuation analysis, ii) evaluating the reasonableness of management's analysis and success rate estimate for denied claims by comparing it to the Company's adjudicated denied claim results, iii) performing testing over a sample of denied revenue transactions by inspecting evidence that the claim was denied, and iv) performing testing over a sample of cash collections from the historical collection data used in management's estimation of collectability.

/s/ PricewaterhouseCoopers LLP
Birmingham, Alabama
February 27, 2023 28, 2024

We have served as the Company's auditor since 2003.

Encompass Health Corporation and Subsidiaries					
Consolidated Statements of Comprehensive Income					
For the Year Ended December 31,			For the Year Ended December 31,		
2022	2021	2020	2023	2022	2021
(In Millions, Except Per Share Data)			(In Millions, Except Per Share Data)		

Net operating revenues	Net operating revenues	\$4,348.6	\$4,014.9	\$3,566.3
Operating expenses:	Operating expenses:			
Salaries and benefits	Salaries and benefits	2,393.3	2,127.3	1,903.8
Other operating expenses	Other operating expenses	670.4	595.9	545.1
Occupancy costs	Occupancy costs	54.7	59.0	61.4
Supplies	Supplies	202.1	184.2	171.0
General and administrative expenses	General and administrative expenses	154.3	169.5	151.6
Depreciation and amortization	Depreciation and amortization	243.6	219.6	203.0
Government, class action, and related settlements		—	—	2.8
Total operating expenses				
Total operating expenses				
Total operating expenses	Total operating expenses	3,718.4	3,355.5	3,038.7
Loss on early extinguishment of debt	Loss on early extinguishment of debt	1.4	1.0	2.3
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	175.7	164.3	183.7
Other expense (income)		5.2	(7.5)	(8.4)
Other (income) expense				
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	(2.9)	(3.4)	(2.9)
Income from continuing operations before income tax expense	Income from continuing operations before income tax expense	450.8	505.0	352.9
Provision for income tax expense	Provision for income tax expense	100.1	101.9	74.7
Income from continuing operations	Income from continuing operations	350.7	403.1	278.2
Income from discontinued operations, net of tax		15.2	114.1	90.6
(Loss) income from discontinued operations, net of tax				
Net and comprehensive income	Net and comprehensive income	365.9	517.2	368.8

Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(93.6)	(103.2)	(83.3)
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)	(1.3)
Less: Net and comprehensive income attributable to noncontrolling interests	Less: Net and comprehensive income attributable to noncontrolling interests	(94.9)	(105.0)	(84.6)
Net and comprehensive income attributable to Encompass Health	Net and comprehensive income attributable to Encompass Health	\$ 271.0	\$ 412.2	\$ 284.2
Weighted average common shares outstanding:	Weighted average common shares outstanding:			

Weighted average common shares outstanding:

Weighted average common shares outstanding:

Basic	Basic	99.2	99.0	98.6
Diluted	Diluted	100.4	100.2	99.8

Earnings per common share:

Basic earnings per share attributable to Encompass Health common shareholders:

Basic earnings per share attributable to Encompass Health common shareholders:

Basic earnings per share attributable to Encompass Health common shareholders:	Basic earnings per share attributable to Encompass Health common shareholders:			
Continuing operations	Continuing operations	\$ 2.58	\$ 3.02	\$ 1.97
Discontinued operations	Discontinued operations	0.14	1.13	0.90
Net income	Net income	\$ 2.72	\$ 4.15	\$ 2.87
Diluted earnings per share attributable to Encompass Health common shareholders:	Diluted earnings per share attributable to Encompass Health common shareholders:			
Continuing operations	Continuing operations	\$ 2.56	\$ 2.99	\$ 1.96

Continuing operations				
Continuing operations				
Discontinued operations	Discontinued operations	0.14	1.12	0.89
Net income	Net income	\$ 2.70	\$ 4.11	\$ 2.85
Amounts attributable to Encompass Health:	Amounts attributable to Encompass Health:			
Amounts attributable to Encompass Health:				
Amounts attributable to Encompass Health:				
Income from continuing operations	Income from continuing operations	\$ 257.1	\$ 299.9	\$ 194.9
Income from discontinued operations, net of tax		13.9	112.3	89.3
(Loss) income from discontinued operations, net of tax				
Net income attributable to Encompass Health	Net income attributable to Encompass Health	\$ 271.0	\$ 412.2	\$ 284.2

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

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Encompass Health Corporation and Subsidiaries

Consolidated Balance Sheets

Assets	Assets	As of December 31,		As of December 31,	
		2022	2021	2023	2022
		(In Millions, Except Share Data)		(In Millions, Except Share Data)	
Current assets:	Current assets:	Current assets:		Current assets:	
Cash and cash equivalents	Cash and cash equivalents	\$ 21.8	\$ 49.4		
Restricted cash	Restricted cash	31.6	62.5		
Accounts receivable	Accounts receivable	536.8	515.8		
Prepaid expenses and other current assets		127.0	114.9		
Current assets of discontinued operations		—	178.8		
Prepaid expenses					

Other current assets			
Total current assets			
Total current assets			
Total current assets	Total current assets	717.2	921.4
Property and equipment, net	Property and equipment, net	2,939.2	2,581.2
Operating lease right-of-use assets	Operating lease right-of-use assets	212.5	193.7
Goodwill	Goodwill	1,263.2	1,237.0
Intangible assets, net	Intangible assets, net	282.3	158.4
Other long-term assets	Other long-term assets	222.0	230.0
Noncurrent assets of discontinued operations		0.1	1,543.2
Other long-term assets			
Other long-term assets			
Total assets ⁽¹⁾			
Total assets ⁽¹⁾			
Total assets ⁽¹⁾	Total assets ⁽¹⁾	\$5,636.5	\$6,864.9
Liabilities and Shareholders' Equity	Liabilities and Shareholders' Equity		
Liabilities and Shareholders' Equity	Liabilities and Shareholders' Equity		
Current liabilities:	Current liabilities:		
Current portion of long-term debt	Current portion of long-term debt	\$ 25.2	\$ 37.8
Current operating lease liabilities	Current operating lease liabilities	25.6	23.5
Accounts payable	Accounts payable	132.9	134.0
Accrued payroll	Accrued payroll	168.3	199.4
Accrued interest payable	Accrued interest payable	42.8	44.4
Other current liabilities	Other current liabilities	181.0	177.3
Current liabilities of discontinued operations		0.1	132.4
Other current liabilities			
Other current liabilities			
Total current liabilities			
Total current liabilities			
Total current liabilities	Total current liabilities	575.9	748.8
Long-term debt, net of current portion	Long-term debt, net of current portion	2,741.8	3,240.5
Long-term operating lease liabilities	Long-term operating lease liabilities	199.7	179.6
Self-insured risks	Self-insured risks	128.5	123.8
Deferred income tax liabilities	Deferred income tax liabilities	83.0	23.3
Other long-term liabilities	Other long-term liabilities	45.3	48.9

Noncurrent liabilities of discontinued operations		0.4	100.8
		3,774.6	4,465.7
Total liabilities^(a)			
Total liabilities^(a)			
Total liabilities^(a)			
Commitments and contingencies	Commitments and contingencies		Commitments and contingencies
Redeemable noncontrolling interests	Redeemable noncontrolling interests	35.6	42.2
Redeemable noncontrolling interests			
Redeemable noncontrolling interests			
Shareholders' equity:	Shareholders' equity:		Shareholders' equity:
Encompass Health shareholders' equity:	Encompass Health shareholders' equity:		Encompass Health shareholders' equity:
Common stock, \$.01 par value; 200,000,000 shares authorized; issued: 114,775,056 in 2022; 114,211,057 in 2021		1.1	1.1
Common stock, \$.01 par value; 200,000,000 shares authorized; issued: 115,416,676 in 2023; 114,775,056 in 2022			
Capital in excess of par value	Capital in excess of par value	1,730.2	2,289.6
Accumulated income	Accumulated income	115.7	141.8
Treasury stock, at cost (14,992,125 shares in 2022 and 14,719,662 shares in 2021)		(536.7)	(521.2)
Treasury stock, at cost (15,163,909 shares in 2023 and 14,992,125 shares in 2022)			
Treasury stock, at cost (15,163,909 shares in 2023 and 14,992,125 shares in 2022)			
Treasury stock, at cost (15,163,909 shares in 2023 and 14,992,125 shares in 2022)			
Total Encompass Health shareholders' equity	Total Encompass Health shareholders' equity	1,310.3	1,911.3
Noncontrolling interests	Noncontrolling interests	516.0	445.7
Total shareholders' equity	Total shareholders' equity	1,826.3	2,357.0

Total	Total
liabilities⁽¹⁾	liabilities⁽¹⁾
and	and
shareholders'	shareholders'
equity	equity
	\$5,636.5 \$6,864.9

⁽¹⁾ Our consolidated assets as of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** include total assets of variable interest entities of **\$207.8 million** **\$207.7 million** and **\$226.2 million** **\$207.8 million**, respectively, which cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** include total liabilities of the variable interest entities of **\$47.9 million** **\$42.2 million** and **\$38.2 million** **\$47.9 million**, respectively. See Note 4, *Variable Interest Entities*.

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

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Shareholders' Equity

Encompass Health Common Shareholders								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated (Deficit) Income	Treasury Stock	Noncontrolling Interests	Total	
(In Millions)								
December 31, 2019	98.6	\$ 1.1	\$2,369.9	\$ (526.5)	\$ (492.3)	\$ 340.9	\$1,693.1	Encompass Health Common Shareholders
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated (Deficit) Income	Treasury Stock	Noncontrolling Interests	Total	
(In Millions)								
December 31, 2020								
Net income	Net income	—	—	—	284.2	—	77.2	361.4
Receipt of treasury stock	Receipt of treasury stock	(0.2)	—	—	—	(15.7)	—	(15.7)
Dividends declared (\$1.12 per share)		—	—	(111.6)	—	—	—	(111.6)
Exchange of Holdings shares	0.6	—	27.1	—	19.2	—	—	46.3
Stock-based compensation	—	—	29.5	—	—	—	—	29.5
Stock options exercised	0.1	—	1.1	—	—	—	—	1.1
Distributions declared	—	—	—	—	—	(72.1)	(72.1)	
Repurchases of common stock in open market	(0.1)	—	—	—	(6.1)	—	(6.1)	
Capital contributions from consolidated affiliates	—	—	—	—	—	42.8	42.8	
Fair value adjustments to redeemable noncontrolling interests	—	—	1.4	—	—	—	—	1.4
Other	0.4	—	9.2	—	(2.5)	(6.8)	(0.1)	
December 31, 2020	99.4	1.1	2,326.6	(242.3)	(497.4)	382.0	1,970.0	
Net income	—	—	—	412.2	—	96.0	508.2	

Receipt of treasury stock								
Receipt of treasury stock	Receipt of treasury stock	(0.2)	—	—	—	(16.4)	—	(16.4)
Dividends declared (\$1.12 per share)	Dividends declared (\$1.12 per share)	—	—	(83.8)	(28.1)	—	—	(111.9)
Stock-based compensation	Stock-based compensation	—	—	32.8	—	—	—	32.8
Stock-based compensation								
Stock-based compensation								
Distributions declared	Distributions declared	—	—	—	—	—	(87.8)	(87.8)
Distributions declared								
Distributions declared								
Capital contributions from consolidated affiliates	Capital contributions from consolidated affiliates	—	—	—	—	—	72.5	72.5
Capital contributions from consolidated affiliates								
Capital contributions from consolidated affiliates								
Other								
Other								
Other	Other	0.3	—	14.0	—	(7.4)	(17.0)	(10.4)
December 31, 2021	December 31, 2021	99.5	1.1	2,289.6	141.8	(521.2)	445.7	2,357.0
Net income	Net income	—	—	—	271.0	—	87.7	358.7
Receipt of treasury stock	Receipt of treasury stock	(0.1)	—	—	—	(7.7)	—	(7.7)
Receipt of treasury stock								
Receipt of treasury stock								
Dividends declared (\$0.86 per share)	Dividends declared (\$0.86 per share)	—	—	(11.1)	(75.2)	—	—	(86.3)
Stock-based compensation								
Stock-based compensation								
Stock-based compensation	Stock-based compensation	—	—	31.7	—	—	—	31.7
Distributions declared	Distributions declared	—	—	—	—	—	(99.5)	(99.5)
Distributions declared								
Distributions declared								
Capital contributions from consolidated affiliates								
Capital contributions from consolidated affiliates								
Capital contributions from consolidated affiliates	Capital contributions from consolidated affiliates	—	—	—	—	—	100.1	100.1

Spin off of Enhabit, Inc.	Spin off of Enhabit, Inc.	—	—	(595.7)	(221.9)	—	(28.4)	(846.0)
Spin off of Enhabit, Inc.								
Spin off of Enhabit, Inc.								
Other	Other	0.4	—	15.7	—	(7.8)	10.4	18.3
December 31, 2022	December 31, 2022	99.8	\$ 1.1	\$1,730.2	\$ 115.7	\$ (536.7)	\$ 516.0	\$1,826.3
Net income								
Receipt of treasury stock								
Receipt of treasury stock								
Receipt of treasury stock								
Dividends declared (\$0.60 per share)								
Stock-based compensation								
Stock-based compensation								
Stock-based compensation								
Distributions declared								
Distributions declared								
Distributions declared								
Capital contributions from consolidated affiliates								
Capital contributions from consolidated affiliates								
Capital contributions from consolidated affiliates								
Other								
Other								
Other								
December 31, 2023								

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

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Encompass Health Corporation and Subsidiaries

Consolidated Statements of Cash Flows

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
		(In Millions)			(In Millions)		
Cash flows from operating activities:	Cash flows from operating activities:				Cash flows from operating activities:		
Net income	Net income	\$365.9	\$517.2	\$368.8			
Income from discontinued operations, net of tax		(15.2)	(114.1)	(90.6)			

Adjustments to reconcile net income to net cash provided by operating activities—				
Provision for government, class action, and related settlements	—	—	2.8	
Loss (income) from discontinued operations, net of tax				
Adjustments to reconcile net income to net cash provided by operating activities —				
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation and amortization				
Depreciation and amortization				
Depreciation and amortization	Depreciation and amortization	243.6	219.6	203.0
Amortization of debt-related items	Amortization of debt-related items	9.7	7.8	7.2
Loss on early extinguishment of debt	Loss on early extinguishment of debt	1.4	1.0	2.3
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	(2.9)	(3.4)	(2.9)
Distributions from nonconsolidated affiliates	Distributions from nonconsolidated affiliates	4.0	2.6	3.4
Stock-based compensation	Stock-based compensation	29.2	29.1	25.6
Deferred tax expense	Deferred tax expense	27.9	17.4	34.5
Other, net	Other, net	20.3	(2.6)	6.8
Other, net				
Other, net				
Changes in assets and liabilities, net of acquisitions —	Changes in assets and liabilities, net of acquisitions —	Changes in assets and liabilities, net of acquisitions —		
Accounts receivable	Accounts receivable	(16.9)	(39.5)	(5.1)
Prepaid expenses and other assets	Prepaid expenses and other assets	8.0	(41.8)	(1.2)
Accounts payable	Accounts payable	2.3	15.6	14.1
Accrued payroll	Accrued payroll	(31.2)	(30.4)	79.2
Accrued interest payable	Accrued interest payable	(1.7)	(2.6)	14.7
Other liabilities				

Other liabilities				
Other liabilities	Other liabilities	9.1	(11.2)	6.3
Net cash provided by operating activities of discontinued operations		52.3	151.1	35.8
Net cash (used in) provided by operating activities of discontinued operations				
Net cash (used in) provided by operating activities of discontinued operations				
Net cash (used in) provided by operating activities of discontinued operations				
Total adjustments	Total adjustments	355.1	312.7	426.5
Net cash provided by operating activities	Net cash provided by operating activities	705.8	715.8	704.7
Cash flows from investing activities:	Cash flows from investing activities:	Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired		—	(1.1)	—
Purchases of property and equipment		(564.8)	(524.6)	(392.8)
Additions to capitalized software costs		(9.2)	(14.6)	(8.3)
Purchases of intangible assets		(10.1)	(6.5)	(3.5)
Purchases of property, equipment, and intangible assets				
Purchases of property, equipment, and intangible assets				
Purchases of property, equipment, and intangible assets				
Proceeds from sale of restricted investments		—	—	12.6
Purchases of restricted investments				
Purchases of restricted investments				
Purchases of restricted investments	Purchases of restricted investments	(35.2)	(9.0)	(8.7)
Other, net	Other, net	(4.2)	8.7	(3.8)
Net cash used in investing activities of discontinued operations	Net cash used in investing activities of discontinued operations	(3.5)	(119.2)	(3.0)
Net cash used in investing activities	Net cash used in investing activities	(627.0)	(666.3)	(407.5)

(Continued)

Encompass Health Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Continued)

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
		(In Millions)			(In Millions)		
Cash flows from financing activities:	Cash flows from financing activities:				Cash flows from financing activities:		
Proceeds from bond issuance		—	—	992.5			
Principal payments on debt, including pre-payments							
Principal payments on debt, including pre-payments							
Principal payments on debt, including pre-payments	Principal payments on debt, including pre-payments	(345.8)	(214.5)	(717.2)			
Principal borrowings on notes	Principal borrowings on notes	11.8	—	—			
Borrowings on revolving credit facility	Borrowings on revolving credit facility	240.0	300.0	330.0			
Borrowings on revolving credit facility							
Borrowings on revolving credit facility							
Payments on revolving credit facility	Payments on revolving credit facility	(385.0)	(100.0)	(375.0)			
Principal payments under finance lease obligations	Principal payments under finance lease obligations	(19.2)	(44.6)	(14.4)			
Debt amendment and issuance costs	Debt amendment and issuance costs	(24.1)	—	(20.3)			
Repurchases of common stock, including fees and expenses		—	—	(6.1)			
Dividends paid on common stock	Dividends paid on common stock	(99.0)	(112.2)	(111.8)			
Purchase of equity interests in consolidated affiliates		—	—	(162.3)			

Dividends paid on common stock				
Dividends paid on common stock				
Distributions paid to noncontrolling interests of consolidated affiliates				
Distributions paid to noncontrolling interests of consolidated affiliates				
Distributions paid to noncontrolling interests of consolidated affiliates	Distributions paid to noncontrolling interests of consolidated affiliates	(96.6)	(101.1)	(70.9)
Taxes paid on behalf of employees for shares withheld	Taxes paid on behalf of employees for shares withheld	(7.3)	(14.6)	(14.7)
Contributions from noncontrolling interests of consolidated affiliates	Contributions from noncontrolling interests of consolidated affiliates	64.1	57.2	34.9
Other, net	Other, net	0.3	(0.1)	1.0
Net cash provided by (used in) financing activities of discontinued operations	Net cash provided by (used in) financing activities of discontinued operations	515.1	(10.2)	(11.6)
Net cash used in financing activities	Net cash used in financing activities	(145.7)	(240.1)	(145.9)
(Decrease) increase in cash, cash equivalents, and restricted cash		(66.9)	(190.6)	151.3
Increase (decrease) in cash, cash equivalents, and restricted cash				
Cash, cash equivalents, and restricted cash at beginning of year	Cash, cash equivalents, and restricted cash at beginning of year	120.3	310.9	159.6
Cash, cash equivalents, and restricted cash at end of year	Cash, cash equivalents, and restricted cash at end of year	\$ 53.4	\$ 120.3	\$ 310.9

Reconciliation of Cash, Cash Equivalents, and Restricted Cash	Reconciliation of Cash, Cash Equivalents, and Restricted Cash				
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Cash and cash equivalents at beginning of period					
Cash and cash equivalents at beginning of period					
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	\$	49.4	\$	185.6
Restricted cash at beginning of period	Restricted cash at beginning of period		62.5		63.9
Restricted cash included in other long-term assets at beginning of period	Restricted cash included in other long-term assets at beginning of period		0.4		21.5
Cash, cash equivalents, and restricted cash in discontinued operations at beginning of period	Cash, cash equivalents, and restricted cash in discontinued operations at beginning of period		8.0		39.9
Cash, cash equivalents, and restricted cash at beginning of period	Cash, cash equivalents, and restricted cash at beginning of period	\$	120.3	\$	310.9
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	\$	21.8	\$	49.4
Cash and cash equivalents at end of period					
Cash and cash equivalents at end of period					
Restricted cash at end of period	Restricted cash at end of period		31.6		62.5
Restricted cash included in other long-term assets at end of period	Restricted cash included in other long-term assets at end of period		—		0.4

Cash, cash equivalents, and restricted cash in discontinued operations at end of period	Cash, cash equivalents, and restricted cash in discontinued operations at end of period	—	8.0	39.9
Cash, cash equivalents, and restricted cash at end of period	Cash, cash equivalents, and restricted cash at end of period	\$ 53.4	\$ 120.3	\$ 310.9
Supplemental cash flow information:	Supplemental cash flow information:			

Supplemental cash flow information:

Supplemental cash flow information:

Cash (paid) received during the year for —	Cash (paid) received during the year for —				Cash (paid) received during the year for —
Interest	Interest	\$ (178.4)	\$ (168.4)	\$ (168.4)	
Income tax refunds	Income tax refunds	1.0	1.8	1.4	
Income tax payments	Income tax payments	(51.2)	(131.4)	(34.3)	

Supplemental schedule of noncash investing and financing activities:	
Supplemental schedule of noncash investing and financing activities:	
Supplemental schedule of noncash investing and financing activities:	
Accrued purchases of property, equipment, and intangible assets	
Accrued purchases of property, equipment, and intangible assets	
Accrued purchases of property, equipment, and intangible assets	
Joint venture contributions	

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

Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Description of Business—

Encompass Health Corporation, incorporated in Delaware in 1984, including its subsidiaries, is a provider of inpatient rehabilitation services. We operate hospitals in 36 37 states and Puerto Rico, with concentrations in the eastern half of the United States Florida and Texas. As of December 31, 2022 December 31, 2023, we operate 153 161 inpatient rehabilitation hospitals. We are the sole owner of 95 98 of these hospitals. We retain 50.0% to 97.5% ownership in the remaining 58 63 jointly owned hospitals.

Basis of Presentation and Consolidation—

The accompanying consolidated financial statements of Encompass Health and its subsidiaries were prepared in accordance with generally accepted accounting principles in the United States of America and include the assets, liabilities, revenues, and expenses of all wholly-owned subsidiaries, majority-owned subsidiaries over which we exercise control, and, when applicable, entities in which we have a controlling financial interest. Certain prior year amounts may have been reclassified for comparative purposes to conform to the current-year financial statement presentation.

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

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

Variable Interest Entities—

Any entity considered a variable interest entity ("VIE") is evaluated to determine which party is the primary beneficiary and thus should consolidate the VIE. This analysis is complex, involves uncertainties, and requires significant judgment on various matters. In order to determine if we are the primary beneficiary of a VIE, we must determine what activities most significantly impact the economic performance of the entity, whether we have the power to direct those activities, and if our obligation to absorb losses or receive benefits from the VIE could potentially be significant to the VIE.

Use of Estimates and Assumptions—

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

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Risks and Uncertainties—

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

- licensure, certification, and accreditation;
- policies, either at the national or local level, delineating what conditions must be met to qualify for reimbursement under Medicare (also referred to as coverage requirements);
- coding and billing for services;
- requirements of the 60% compliance threshold under The Medicare, Medicaid and State Children's Health Insurance Program (SCHIP) Extension Act of 2007;

- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws;
- quality of medical care;
- use and maintenance of medical supplies and equipment;
- maintenance and security of patient information and medical records;
- minimum staffing;
- acquisition and dispensing of pharmaceuticals and controlled substances;
- pricing transparency and similar consumer protection rules; and
- disposal of medical and hazardous waste.

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

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

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

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

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

As discussed in Note 18, *Contingencies and Other Commitments*, we are a party to a number of lawsuits. We cannot predict the outcome of litigation filed against us. Substantial damages or other monetary remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Net Operating Revenues—

Our *Net operating revenues* disaggregated by payor source are as follows (in millions):

		Year Ended December 31,		
		2022	2021	2020
		Year Ended December 31,		
		2023	2022	2021
Medicare	Medicare	\$2,843.1	\$2,589.6	\$2,375.6
Medicare Advantage	Medicare Advantage	654.6	609.6	544.9
Managed care	Managed care	505.2	484.5	371.4
Medicaid	Medicaid	183.3	163.1	140.1
Other third-party payors	Other third-party payors	39.5	46.0	43.0
Workers' compensation	Workers' compensation	24.7	23.1	21.5
Patients	Patients	16.6	19.3	19.2
Other income	Other income	81.6	79.7	50.6
Total	Total	\$4,348.6	\$4,014.9	\$3,566.3

We record *Net operating revenues* on an accrual basis using our best estimate of the transaction price for the type of service provided to the patient. Our estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, potential adjustments that may arise from payment and other reviews, and uncollectible amounts. Our accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Adjustments related to payment reviews by third-party payors or their agents are based on our historical experience and success rates in the claims adjudication process. Estimates for uncollectible amounts are based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors.

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

CMS

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The Centers for Medicare & Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information an overpayment, fraud, or willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to us. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General (the "HHS-OIG") or the United States Department of Justice (the "DOJ"). Therefore, we are unable to predict if or when we may be

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subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our financial position, results of operations, and cash flows.

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

Medicare Administrative Contractors ("MACs"), under programs known as "widespread probes," have conducted pre-payment claim reviews of our Medicare billings and in some cases denied payment for certain diagnosis codes. We dispute, or "appeal," most of these denials. As discussed above, our historical experience and success in the adjudication of these appeals is a component of our estimate of transaction price. The Medicare appeals adjudication process is administered by the Office of Medicare Hearings and Appeals ("OMHA") and has been subject to significant delay resulting in a backlog of claims awaiting adjudication. Beginning in March 2020, OMHA increased the frequency of hearings and the number of claims set at each hearing, which we believe adds to the substantive and procedural deficiencies in the appeals process. During 2022, the backlog of "widespread probe" claims adjudicated by the administrative law judge ("ALJ") continued and were substantially completed, resolved. This OMHA practice resulted in a reduction in our success in the adjudication of these appeals, but have increased the pace of recovery of these claims. We have appealed certain adverse ALJ rulings to the Department Appeals Boards Board ("DAB"), the final level of administrative review. As of December 31, 2022 December 31, 2023, approximately \$52 \$31 million in denied claims are awaiting review at the DAB. In addition, we have appealed approximately \$6 \$7 million in claims denied by the DAB to several pending review by the United States District Courts, all of which are pending review district courts as of December 31, 2022 December 31, 2023.

In August 2017, CMS announced During the fourth quarter of 2023, we recorded an additional reserve totaling \$21.9 million related to appeals pending before the DAB and several federal district courts. The increase in reserve was driven primarily by an increase in unfavorable adjudication outcomes experienced at the DAB during the second half of 2023 and largely offsets the remaining net carrying value of these claims. These appeals relate primarily to claims denied prior to 2018. This adjustment does not impact our reserve methodology for ongoing claims audit programs, including TPE and IRF RCD (defined and discussed below). We will continue to pursue ongoing appeals before the DAB and federal district courts where economically beneficial.

Under CMS's Targeted Probe and Educate ("TPE") initiative. Under the TPE initiative, program, MACs use data analysis to identify healthcare providers with high claim error rates and items and services that have high national error rates. Once a MAC selects a provider for claims review, the initial volume of claims review is limited to 20 to 40 claims. The TPE initiative program includes up to three rounds of claims review if necessary with corresponding provider education and a subsequent period to allow for improvement. If results do not improve sufficiently after three rounds, the MAC may refer the provider to CMS for further action, which may include extrapolation of error rates to a broader universe of claims or referral to a UPIC or RAC (defined below). We cannot predict the impact of the TPE initiative program on our ability to collect claims on a timely basis.

On December 14, 2020, CMS announced a five-year review choice demonstration for inpatient rehabilitation services (the "IRF RCD"). The IRF RCD began in Alabama in August 2023. CMS intends to expand this demonstration to Pennsylvania, Texas, and California but has not yet announced the timing for doing so. The IRF RCD affects the process in which we submit, and receive reimbursement for, Medicare claims. Under the IRF RCD, 100% of Medicare reimbursement claims are reviewed for compliance with applicable coverage and clinical documentation requirements. We elected to participate initially in the pre-claim review option under IRF RCD. The pre-claim review request with required documentation

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must be submitted and reviewed before the final claim is submitted for payment. If a certain percentage of the claims reviewed are found to be valid, the inpatient rehabilitation facility ("IRF") may then opt out of the 100% review. That percentage will initially be 80% or greater for the first six-month period and eventually increases to 90% or greater in subsequent review cycles. In opting out, the IRF may elect spot prepayment reviews of samples consisting of 5% of total claims or selective post-payment review of a random sample. As of year end 2023, we cannot be certain our claim validation rate will continue to exceed the required percentage for each review cycle, nor can we predict the impact, if any, the IRF RCD may have on our volumes or the collectability of our Medicare claims over its five-year term and ultimately our financial position, results of operations, and cash flows.

In connection with CMS approved and announced Recovery Audit Contractors ("RACs") audits related to inpatient rehabilitation facilities ("IRFs"), IRFs, we received requests from 2013 to 2022 2023 to review certain patient files for discharges occurring from 2010 to 2022, 2023. These RAC audits are focused on identifying Medicare claims that may contain improper payments. RAC contractors must have CMS approval before conducting these focused reviews which cover issues ranging from billing documentation to medical necessity. Medical necessity is an assessment by an independent physician of a patient's ability to tolerate and benefit from intensive multi-disciplinary therapy provided in an IRF setting.

CMS has also established other types of contractors, including the Unified Program Integrity Contractors ("UPICs"), previously known as Zone Program Integrity Contractors. These contractors perform and the Supplemental Medical Review Contractor ("SMRC"). The UPICs conduct audits with a focus on potential fraud waste, and abuse detection, deterrence and prevention activities for Medicare and Medicaid claims. issues. Like the RACs, the UPICs conduct audits and have the ability to refer matters to the HHS-OIG or the DOJ. Unlike RACs, however, UPICs do not receive a specific financial incentive based on the amount of the error as a result of UPIC audits. We have, from time to time, received UPIC record requests which have resulted in claim denials on paid claims. We have appealed substantially all UPIC denials arising from these audits using the same process we follow for appealing other denials by contractors. In December 2017, As of December 31, 2023, we received notice of a UPIC audit at one of our hospitals. The UPIC sampled 100 claims and challenged the propriety of a subset of the sample representing \$1.3 million in previously paid claims. The UPIC extrapolated the alleged error rate to all claims from that hospital during a period of approximately four years, resulting in an alleged overpayment of \$33.9 million. Our MAC later reduced the determination of overpayment to \$30.5 million, which it collected through recoupment of current claims during 2019. We appealed the overpayment determination to an Administrative Law Judge ("ALJ"), who heard the appeal in August 2021. In October 2022, the ALJ

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overturned \$12.5 million of the overpayment determination. We received payment of this amount, plus \$3.2 million in interest, in December 2022. We have appealed the remaining \$18.0 million of the overpayment determination related to one UPIC audit to the DAB, the next level of administrative appeal, challenging both the denials and the improper use of extrapolation. It is not possible to predict when this matter will be resolved or the ultimate outcome. The SMRC conducts nationwide medical reviews of Medicare claims to determine compliance with coverage, coding, payment, and billing requirements. During the first quarter of 2023, the SMRC initiated a review of claims from March 2020 through December 2020 totaling approximately \$21 million. We have received initial results for the claims under review and, as of December 31, 2023, approximately 87% of these have been approved with approximately \$3 million under appeal.

To date, the Medicare claims that are subject to these post-payment audit requests represent less than 1% of our Medicare patient discharges from 2010 to 2022, 2023. Because we have confidence in the medical judgment of both the referring and admitting physicians who assess the treatment needs of their patients, we have appealed substantially all claim denials arising from these audits using the same process we follow for appealing denials by MACs. Due to the delays announced by CMS in the related adjudication process discussed above, we believe the resolution of any claims that are subsequently denied as a result of these claim audits could take several years. In addition, because we have limited experience with UPICs and RACs in the context of claims reviews of this nature, we cannot provide assurance as to the timing or outcomes of these disputes. As such, we make estimates for these claims based on our historical experience and success rates in the claims adjudication process, which is the same process we follow for denials by MACs. During 2023, 2022, 2021, and 2020, 2021, our adjustment to *Net operating revenues* for claims that are part of this post-payment claims review process was not material.

Our performance obligations relate to contracts with a duration of less than one year. Therefore, we elected to apply the optional exemption to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. These unsatisfied or partially unsatisfied performance obligations primarily relate to services provided at the end of the reporting period.

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

Net operating revenues are recognized over time as the services are provided to the patient. The performance obligation is the rendering of services to the patient during the term of their inpatient stay. Revenues are recognized (or measured) using the input method as therapy, nursing, and auxiliary services are provided based on our estimate of the respective transaction price. Revenues recognized are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related accounts receivable. Factors considered in determining the estimated transaction price include the patient's total length of stay for in-house patients, each patient's discharge destination,

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the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes.

Cash and Cash Equivalents—

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

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

Marketable Securities—

We record all equity securities with readily determinable fair values and for which we do not exercise significant influence at fair value and record the change in fair value for the reporting period in our consolidated statements of comprehensive income.

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

are charged against earnings when a decline in fair value was determined to be other than temporary. Management reviews several factors to determine whether a loss is other than temporary, such as the length of

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time a security is in an unrealized loss position, the extent to which fair value is less than cost, the financial condition and near term prospects of the issuer, industry, or geographic area and our ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Accounts Receivable—

We report accounts receivable from services rendered at their estimated transaction price which takes into account price concessions from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, workers' compensation programs, employers, and patients. Our accounts receivable are concentrated by type of payor. The concentration of patient service accounts receivable by payor class, as a percentage of total patient service accounts receivable, is as follows:

		As of December 31,				As of December 31,	
		2022	2021			2023	2022
Medicare	Medicare	57.9 %	57.8 %	Medicare		57.6 %	57.9 %
Managed care and other discount plans, including Medicare Advantage	Managed care and other discount plans, including Medicare Advantage	31.1 %	31.4 %	Managed care and other discount plans, including Medicare Advantage		32.3 %	31.1 %
Medicaid	Medicaid	4.4 %	4.1 %	Medicaid		4.0 %	4.4 %
Other third-party payors	Other third-party payors	3.4 %	3.3 %	Other third-party payors		2.7 %	3.4 %
Workers' compensation	Workers' compensation	2.2 %	1.9 %	Workers' compensation		2.5 %	2.2 %
Patients	Patients	1.0 %	1.5 %	Patients		0.9 %	1.0 %
Total	Total	100.0 %	100.0 %	Total		100.0 %	100.0 %

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

Accounts requiring collection efforts are reviewed via system-generated work queues that automatically stage (based on age and size of outstanding balance) accounts requiring collection efforts for patient account representatives. Collection efforts include contacting the applicable party (both in writing and by telephone), providing information (both financial and clinical) to allow for payment or to overturn payor decisions to deny payment, and arranging payment plans with self-pay patients, among other techniques. When we determine all in-house efforts have been exhausted or it is a more prudent use of resources, accounts may be turned over to a collection agency.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors, and patients is our primary source of cash and is critical to our operating performance. While it is our policy to verify insurance prior to a patient being admitted, there are various exceptions that can occur. Such exceptions include instances where we are (1) unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is

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made that a patient may be eligible for benefits under various government programs, such as Medicaid, and it takes several days, weeks, or months before qualification for such benefits is confirmed or denied, and (3) the patient is transferred to our hospital from an acute care hospital without having access to a credit card, cash, or check to pay the applicable patient responsibility amounts (i.e., deductibles and co-payments).

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

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. Changes in general economic conditions, business office operations, payor mix, or trends in federal or state

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governmental and private employer healthcare coverage could affect our collection of accounts receivable, financial position, results of operations, and cash flows.

Property and Equipment—

We report land, buildings, improvements, vehicles, and equipment at cost, net of accumulated depreciation and amortization and any asset impairments. We depreciate our assets using the straight-line method over the shorter of the estimated useful life of the assets or life of the underlying leases. Useful lives are generally as follows:

	Years
Buildings	10 to 30
Leasehold improvements	2 to 15
Vehicles	5
Furniture, fixtures, and equipment	3 to 10

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

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

Leases—

We determine if an arrangement is a lease or contains a lease at inception and perform an analysis to determine whether the lease is an operating lease or a finance lease. We measure right-of-use assets and lease liabilities at the lease commencement date based on the present value of the remaining lease payments. As most of our leases do not provide a readily determinable implicit rate, we estimate an incremental borrowing rate based on the credit quality of the Company and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease. We use this rate to discount the remaining lease payments in measuring the right-of-use asset and lease liability. We use the implicit rate when readily determinable. We recognize lease expense for operating leases on a straight-line basis over the lease term. For our finance leases, we recognize amortization expense from the amortization of the right-of-use asset and interest expense on the related lease liability. Certain of our lease agreements contain annual escalation clauses based on changes in the Consumer Price Index. The changes to the Consumer Price Index, as compared to our initial estimate at the lease commencement date, are treated as variable lease payments and recognized in the period in

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which the obligation for those payments was incurred. In general, we do not account for lease and non-lease components separately for purposes of establishing right-of-use assets and lease liabilities.

Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

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Goodwill and Other Intangible Assets—

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

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

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

We amortize the cost of intangible assets with finite useful lives over their respective estimated useful lives to their estimated residual value. As of December 31, 2022 December 31, 2023, none of our finite useful lived intangible assets has an estimated residual value. We also review these assets for impairment whenever events or changes in circumstances indicate we may not be able to recover the asset's carrying amount.

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

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

We capitalize the costs of obtaining or developing internal-use software, including external direct costs of material and services and certain directly related payroll costs. Amortization begins when the internal-use software is ready for its intended

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use. Costs incurred during the preliminary project and post-implementation stages, as well as maintenance and training costs, are expensed as incurred.

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

Impairment of Long-Lived Assets and Other Intangible Assets—

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

Financing Costs—

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

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

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Fair Value Measurements—

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

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

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

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

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

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

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

In addition, there are assets and liabilities that are not required to be reported at fair value on a recurring basis. However, these assets may be recorded at fair value as a result of impairment charges or other adjustments made to the carrying value of the applicable assets. The fair value of our property and equipment is determined using discounted cash flows and significant unobservable inputs, unless there is an offer to purchase such assets, which could be the basis for determining fair value. The fair value of our intangible assets, excluding goodwill, is determined using discounted cash flows and significant unobservable inputs. The fair value of our investments in nonconsolidated affiliates is determined using quoted prices in private markets, discounted cash flows or earnings, or market multiples derived from a set of comparables. The fair value of our assets and liabilities of discontinued operations is determined using discounted cash flows and significant unobservable inputs unless there is an offer to purchase such assets and liabilities, which would be the basis for determining fair value. The fair value of our goodwill is determined using discounted projected operating results and cash flows, which involve significant unobservable inputs.

See also the "Redeemable Noncontrolling Interests" section of this note.

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Noncontrolling Interests in Consolidated Affiliates—

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

Redeemable Noncontrolling Interests—

Certain of our joint venture agreements contain provisions that allow our partners to require us to purchase their interests in the joint venture at fair value at certain points in the future. Likewise, certain members of the home health and hospice management team held similar put rights regarding their interests in our home health and hospice business, as discussed in Note 12, *Redeemable Noncontrolling Interests*. Because these noncontrolling interests provide for redemption features that are not solely within our control, we classify them as *Redeemable noncontrolling interests* outside of permanent equity in our consolidated balance sheets. At the end of each reporting period, we compare the carrying value of the *Redeemable noncontrolling interests* to their estimated redemption value. If the estimated redemption value is greater than the current carrying value, the carrying value is adjusted to the estimated redemption value, with the adjustments recorded through equity in the line item *Capital in excess of par value*.

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The fair value of the Redeemable noncontrolling interests related to certain members of the home health and hospice management team's put rights regarding their interests in our home health and hospice business was determined using the product of a 12-month specified performance measure and a specified median market price multiple based on a basket of public health companies and publicly disclosed home health acquisitions with a value of \$400 million or more. The fair value of our Redeemable noncontrolling interests in our joint venture entities is determined primarily using the income approach. The income approach includes the use of the joint venture entities' projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the applicable joint venture entity, or Level 3 inputs. The projected operating results use management's best estimates of economic and market conditions over the forecasted periods including assumptions for pricing and volume, operating expenses, and capital expenditures.

Share-Based Payments—

Encompass Health has shareholder-approved stock-based compensation plans that provide for the granting of stock-based compensation to certain employees and directors. All share-based payments to employees are recognized in the financial statements based on their estimated grant-date fair value and amortized on a straight-line basis over the applicable requisite service period.

Litigation Reserves—

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

Advertising Costs—

We expense costs of print, radio, television, and other advertisements as incurred. Advertising expenses, primarily included in *Other operating expenses* within the accompanying consolidated statements of comprehensive income, were \$6.3 million, \$5.6 million, and \$4.6 million in each of the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021, respectively.

Income Taxes—

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

A valuation allowance is required when it is more likely than not some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income in the applicable tax jurisdiction. On a quarterly basis, we assess the likelihood of realization of our deferred tax assets considering all available evidence, both

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positive and negative. Our most recent operating performance, the scheduled reversal of temporary differences, our forecast of taxable income in future periods by jurisdiction, our ability to sustain a core level of earnings, and the availability of prudent tax planning strategies are important considerations in our assessment.

We evaluate our tax positions and establish assets and liabilities in accordance with the applicable accounting guidance on uncertainty in income taxes. We review these tax uncertainties in light of changing facts and circumstances, such as the progress of tax audits, and adjust them accordingly. We have used the with-and-without method to determine when we will recognize excess tax benefits from stock-based compensation.

Encompass Health and its corporate subsidiaries file a consolidated federal income tax return. Some subsidiaries consolidated for financial reporting purposes are not part of the consolidated group for federal income tax purposes and file separate federal income tax returns. State income tax returns are filed on a separate, combined, or consolidated basis in accordance with relevant state laws and regulations. Partnerships, limited liability companies, and other pass-through entities we consolidate or account for using the equity method of accounting file separate federal and state income tax returns. We

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include the allocable portion of each pass-through entity's income or loss in our federal income tax return. We allocate the remaining income or loss of each pass-through entity to the other partners or members who are responsible for their portion of the taxes. We **include** **included** the activity of Enhabit, Inc. and its subsidiaries in our consolidated and combined tax filings for 2022 up through the date of the Spin Off, which is defined and described in Note 2, *Spin Off of Home Health and Hospice Business*. Subsequent to the Spin Off, Enhabit, Inc. and its subsidiaries **will be** no longer **be** included in our consolidated and combined filings.

Assets and Liabilities in and Results of Discontinued Operations—

We report the disposal of the component, or group of components, as discontinued operations only when it represents a strategic shift that has, or will have, a major effect on our operations and financial results. In the period a component of an entity has been disposed of or classified as held for sale, we reclassify the results of operations for current and prior periods into a single caption titled **Income (Loss) income from discontinued operations, net of tax**. In addition, we classify the assets and liabilities of those components as current and noncurrent assets and liabilities within **Current Other current assets of discontinued operations**, **Noncurrent Other long-term assets of discontinued operations**, **Current Other current liabilities of discontinued operations**, and **Noncurrent Other long-term liabilities of discontinued operations** in our consolidated balance sheets. We also classify cash flows related to discontinued operations as one line item within each category of cash flows in our consolidated statements of cash flows.

Earnings per Common Share—

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

Treasury Stock—

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

Comprehensive Income—

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

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Recent Accounting Pronouncements—

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which requires all public entities, including entities with a single reportable segment, to provide disclosure of (1) significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit or loss, (2) the amount and description of the composition of other segment items which reconcile to segment profit or loss, and (3) the title and position of the entity's CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and allocating resources. ASU 2023-07 is effective for our annual periods beginning January 1, 2024 and interim periods beginning January 1, 2025. Early adoption is permitted with retrospective application required for all prior periods presented in the financial statements. We are currently evaluating the requirements of this standard and any potential impact it may have on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which intends to improve the transparency of income tax disclosures by requiring companies to (1) disclose consistent categories and greater disaggregation of information in the effective rate reconciliation and (2) provide information on income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for our annual periods beginning January 1, 2025, with early adoption permitted. We are required to apply the guidance prospectively but have the option to apply it retrospectively. We are currently evaluating the requirements of this standard and any potential impact it may have on our consolidated financial statements.

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

2. Spin Off of Home Health and Hospice Business

On July 1, 2022, we completed the previously announced separation of our home health and hospice business through the distribution (the "Spin Off") of all of the outstanding shares of common stock, par value \$0.01 per share, of Enhabit, Inc. ("Enhabit") to the stockholders of record of Encompass Health as of the close of business on June 24, 2022 (the "Record Date"). The Spin Off was effective at 12:01 a.m., Eastern Time, on July 1, 2022. The Spin Off was structured as a pro rata distribution of one share of Enhabit common stock for every two shares of Encompass Health common stock held of record as of the Record Date. No fractional shares were distributed. A cash payment was made in lieu of any fractional shares. As a result of the Spin Off, Enhabit is now an independent public company and its common stock is listed under the symbol "EHAB" on the New York Stock Exchange.

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In accordance with applicable accounting guidance, the historical results of Enhabit have been presented as discontinued operations and, as such, have been excluded from continuing operations for **all periods presented, the years ended December 31, 2022 and 2021**. Our presentation of discontinued operations excludes any allocation of general corporate and overhead costs as well as interest expense. Prior to July 1, 2022, we operated under two reporting segments. We now operate under a single reporting segment. In anticipation of the Spin Off, Enhabit transferred the "Encompass" trade name (net book value of \$104.2 million) to us during the second quarter of 2022.

In connection with the Spin Off, on June 30, 2022, we entered into several agreements with Enhabit that govern the relationship of the parties following the Spin Off, including a Separation and Distribution Agreement, a Transition Services Agreement, a Tax Matters Agreement and an Employee Matters Agreement.

We will provide Under the terms of the arrangement, we have provided certain transition services to Enhabit predominately consisting of certain finance, information technology, human resources, employee benefits and other administrative services. Some of those services may be provided for a period of up to two years after the Spin Off. For the **year years** ended **December 31, 2022, December 31, 2023 and 2022**, income related to these transition services **of was \$2.9 million and \$2.1 million, respectively. These amounts** were reflected as reductions to *General and administrative expenses* in our consolidated statements of comprehensive income.

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The following table presents the results of operations of Enhabit as discontinued operations (in millions):

	For the Year Ended December 31,		
	2022 ⁽¹⁾	2021	2020
Net operating revenue	\$ 542.3	\$ 1,106.6	\$ 1,078.4
Operating expenses:			
Salaries and benefits	376.4	759.2	778.0
Other operating expenses	47.5	89.7	89.6
Occupancy costs	11.0	21.2	19.8
Supplies	11.7	25.1	29.5
General and administrative expenses	59.3	27.9	3.9
Depreciation and amortization	16.7	36.9	40.0
Total operating expenses	522.6	960.0	960.8
Interest expense and amortization of debt discounts and fees	0.2	0.3	0.5
Other income	—	(4.8)	(2.2)
Equity in net income of nonconsolidated affiliates	—	(0.6)	(0.5)
Income from discontinued operations before income taxes	19.5	151.7	119.8
Provision for income tax expense	4.3	37.6	29.2
Income from discontinued operations, net of tax	15.2	114.1	90.6
Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)	(1.3)
Net income attributable to Encompass Health included in discontinued operations	\$ 13.9	\$ 112.3	\$ 89.3

^(a) Reflects amounts through the July 1, 2022 Spin Off date.

	For the Year Ended December 31,	
	2022	2021
Net operating revenue	\$ 542.3	\$ 1,106.6
Operating expenses:		
Salaries and benefits	376.4	759.2
Other operating expenses	47.5	89.7
Occupancy costs	11.0	21.2
Supplies	11.7	25.1
General and administrative expenses	59.3	27.9
Depreciation and amortization	16.7	36.9
Total operating expenses	522.6	960.0
Interest expense and amortization of debt discounts and fees	0.2	0.3
Other income	—	(4.8)
Equity in net income of nonconsolidated affiliates	—	(0.6)
Income from discontinued operations before income taxes	19.5	151.7
Provision for income tax expense	4.3	37.6
Income from discontinued operations, net of tax	15.2	114.1
Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)
Net income attributable to Encompass Health included in discontinued operations	\$ 13.9	\$ 112.3

Transaction costs of \$56.7 million and \$22.9 million incurred during the years ended December 31, 2022 and 2021, respectively, are included in general and administrative expenses in the table above and in *Income (Loss) income from discontinued operations, net of tax*, in the consolidated statements of comprehensive income. These charges primarily *relate related* to third-party advisory, consulting, legal and professional services, that *are were* associated with the Spin Off.

During 2023, we incurred legal costs of \$15.8 million related to ongoing litigation against former executive officers of our home health and hospice business. These costs are included in *(Loss) income from discontinued operations, net of tax*, in the consolidated statements of comprehensive income.

3. Business Combinations:

2023 Acquisitions

During 2023, we completed the following acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In March 2023, we acquired 50% of the operations of a 24-bed inpatient rehabilitation unit in Eau Claire, Wisconsin when Hospital Sisters Health System contributed those operations to our existing joint venture.
- In March 2023, we acquired 50% of the operations of a 48-bed inpatient rehabilitation unit in Knoxville, Tennessee when Covenant Health contributed those operations to our existing joint venture.
- In September 2023, we acquired 50% of the operations of a 29-bed inpatient rehabilitation unit in Columbus, Georgia when Piedmont Healthcare, Inc. contributed those operations to our existing joint venture.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from the respective dates of acquisition. Assets acquired were recorded at their estimated fair values as

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of the acquisition date. Estimated fair values were based on various valuation methodologies including: an income approach using discounted cash flow techniques for the noncompete intangible assets; an income approach utilizing the relief from royalty method for the trade name intangible assets; and an income approach utilizing the excess earnings method for the certificates of need intangible assets. The following table presents aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital. The excess of the carrying amounts fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and liabilities penetrate the acquired units' historical patient base

and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. The goodwill recorded as a result of these transactions that is deductible for federal income tax purposes is \$7.4 million.

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

The fair value of the assets acquired at the acquisition dates were as follows (in millions):

	As of December 31, 2021
Assets	
Current assets:	
Cash and cash equivalents	\$ 5.4
Restricted cash	2.6
Accounts receivable	164.5
Prepaid expenses and other current assets	6.3
Total current assets of discontinued operations	178.8
Property and equipment, net	20.4 \$ 0.1
Identifiable intangible assets:	
Noncompete agreements (useful lives of 3 years)	Operating lease right-of-use assets 0.5
Trade names (useful lives of 20 years)	48.4 1.8
Certificates of need (useful lives of 20 years)	10.6
Goodwill	1,190.9 18.1
Intangible assets, net	259.1
Other long-term assets	24.4
Total noncurrent assets of discontinued operations	1,543.2
Total assets of discontinued operations acquired	\$ 1,722.0 31.1

Information regarding the net cash paid for the acquisitions during 2023 is as follows (in millions):

Fair value of assets acquired	\$ 13.0
Liabilities Goodwill	18.1
Fair value of noncontrolling interest owned by joint venture partner	(31.1)
Current liabilities:	
Current portion of long-term debt	\$ 5.0
Current operating lease liabilities	14.9
Accounts payable	3.5
Accrued payroll	66.4
Other current liabilities	42.6
Total current liabilities of discontinued operations	132.4
Long-term debt, net of current portion	3.5
Long-term operating lease liabilities	33.5
Deferred income tax liabilities	63.4
Other long-term liabilities	0.4
Total noncurrent liabilities of discontinued operations	100.8
Total liabilities of discontinued operations	\$ 233.2

See also Note 10, Long-term Debt.Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned acquisitions from the dates of acquisitions included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the dates of the acquisitions been January 1, 2022 (in millions):

3. Business Combinations:

	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2023	\$ —	\$ —
Combined entity: Supplemental pro forma from 01/01/2023-12/31/2023 (unaudited)	4,812.8	353.9
Combined entity: Supplemental pro forma from 01/01/2022-12/31/2022 (unaudited)	4,379.4	274.5

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2022 reporting period.

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2022 Acquisitions

During 2022, we completed the following inpatient rehabilitation acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In August 2022, we acquired 60% of the operations of a 23-bed inpatient rehabilitation unit in Grand Forks, North Dakota when Altru Health System contributed those operations to our existing joint venture.
- In August 2022, we acquired 50% of the operations of a 22-bed inpatient rehabilitation unit in Moline, Illinois when Trinity Medical Center contributed those operations to our existing joint venture.

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- In December 2022, we acquired 50% of the operations of a 54-bed inpatient rehabilitation unit in Naples, Florida when NCH Healthcare System contributed those operations to our joint venture.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from the respective dates of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on an income approach using discounted cash flow techniques for the noncompete intangible assets. The aforementioned income method utilizes management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital. The excess of the fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospitals' historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. None of the goodwill recorded as a result from these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition dates were as follows (in millions):

Identifiable intangible assets:	
Noncompete agreements (useful lives of 2 to 3 years)	\$ 0.9
Goodwill	26.2
Total assets acquired	<u>\$ 27.1</u>

Information regarding the net cash paid for the acquisitions during 2022 is as follows (in millions):

Fair value of assets acquired	\$	0.9
Goodwill		26.2
Fair value of noncontrolling interest owned by joint venture partner		(27.1)
Net cash paid for acquisitions	\$	—

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Pro Forma Results of Operations

The following table summarizes the results of operations of the above-mentioned acquisitions from the dates of acquisitions included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the dates of the acquisitions been January 1, 2021 (in millions):

	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2022	\$ —	\$ —
Combined entity: Supplemental pro forma from 01/01/2022-12/31/2022 (unaudited)	4,369.0	273.7
Combined entity: Supplemental pro forma from 01/01/2021-12/31/2021 (unaudited)	4,039.8	415.3

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2021 period.

2021 Acquisitions

During 2021, we completed the following **inpatient rehabilitation** acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In April 2021, we acquired 51% of the operations of a 14-bed inpatient rehabilitation unit in San Angelo, Texas when Shannon Medical contributed those operations to our existing joint venture entity.

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- In June 2021, we acquired 75% of the operations of a 16-bed inpatient rehabilitation unit in McKees Rocks, Pennsylvania through our existing joint venture with Heritage Valley Health System, Inc. The acquisition was funded using cash on hand.
- In July 2021, we acquired 65% of the operations of a 22-bed inpatient rehabilitation unit in Odessa, Texas when ECHD Ventures contributed those operations to our existing joint venture entity.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from its respective date of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: an income approach using primarily discounted cash flow techniques for the noncompete intangible assets and an income approach utilizing the relief from royalty method for the trade name intangible asset. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in this market. None of the goodwill recorded as a result from these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition dates were as follows (in millions):

Identifiable intangible assets:		
Noncompete agreements (useful lives of 3 to 5 years)	\$	1.0
Trade name (useful life of 20 years)		0.3
Goodwill		8.8
Other long-term assets		0.1
Total assets acquired	\$	10.2

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Information regarding the net cash paid for the acquisitions during 2021 is as follows (in millions):

Fair value of assets acquired	\$	1.4
Goodwill		8.8
Fair value of noncontrolling interest owned by joint venture partner		(9.1)
Net cash paid for acquisitions	\$	1.1

2021 Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned-acquisitions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2020 January 1, 2021 (in millions):

		Net Income Attributable to Encompass Health	
	Net Operating Revenues	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2021	Acquired entities only: Actual from acquisition date to December 31, 2021	\$ —	\$ —
Combined entity: Supplemental pro forma from 01/01/2021-12/31/2021 (unaudited)	Combined entity: Supplemental pro forma from 01/01/2021-12/31/2021 (unaudited)	4,021.1	412.5
Combined entity: Supplemental pro forma from 01/01/2020-12/31/2020 (unaudited)	Combined entity: Supplemental pro forma from 01/01/2020-12/31/2020 (unaudited)	3,581.3	285.0

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2020 period.

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2020 Acquisitions

During 2020, we completed the following inpatient rehabilitation acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

- In January 2020, we acquired 68% of the operations of a 13-bed inpatient rehabilitation unit in Denver, Colorado through a joint venture with Portercare Adventist Health System. The acquisition was funded through a contribution of our existing 40-bed inpatient rehabilitation hospital in Littleton, Colorado and through contributions of funds which were utilized by the consolidated joint venture to build a 20-bed expansion to the Littleton hospital.
- In May 2020, we acquired 51% of the operations of a 45-bed inpatient rehabilitation unit in Dayton, Ohio through a joint venture with Premier Health Partners. The acquisition was funded through contributions of funds which were utilized by the consolidated joint venture to build a 60-bed de novo inpatient rehabilitation hospital.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from its respective date of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including an income approach using primarily discounted cash flow techniques for the noncompete intangible assets and an income approach utilizing the relief from royalty method for the trade name intangible asset. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in this market. None of the goodwill recorded as a result from these transactions are deductible for federal income tax purposes.

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

Identifiable intangible assets:	
Noncompete agreements (useful lives of 2 to 3 years)	\$ 0.7
Trade name (useful life of 20 years)	0.9
Goodwill	9.3
Total assets acquired	<u>\$ 10.9</u>

Information regarding the net cash paid for the inpatient rehabilitation acquisitions during 2020 is as follows (in millions):

Fair value of assets acquired	\$ 1.6
Goodwill	9.3
Fair value of noncontrolling interest owned by joint venture partner	(10.9)
Net cash paid for acquisitions	<u>\$ —</u>

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2020 Pro Forma Results of Operations

The following table summarizes the results of operations of the above-mentioned acquisitions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2020 (in millions):

	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to December 31, 2020	\$ —	\$ —
Combined entity: Supplemental pro forma from 01/01/2020-12/31/2020 (unaudited)	3,571.9	284.8

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2020 reporting 2021 period.

4. Variable Interest Entities:

As of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, we consolidated eight **and ten, respectively**, limited partnership-like entities that are VIEs and of which we are the primary beneficiary. Our ownership percentages in these entities range from 50.0% to 75.0% as of **December 31, 2022** **December 31, 2023**. Through partnership and management agreements with or governing each of these entities, we manage all of these entities and handle all day-to-day operating decisions. Accordingly, we have the decision-making power over the activities that most significantly impact the economic performance of our VIEs and an obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections and creation and maintenance of medical records. The terms of the agreements governing each of our VIEs prohibit us from using the assets of each VIE to satisfy the obligations of other entities.

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The carrying amounts and classifications of the consolidated VIEs' assets and liabilities, which are included in our consolidated balance sheets, are as follows (in millions):

		As of December 31,	
		2022	2021
As of December 31,		As of December 31,	
2023		2023	2022
Assets	Assets		
Current assets:	Current assets:		
Current assets:	Current assets:		
Cash and cash equivalents	Cash and cash equivalents		
Cash and cash equivalents	Cash and cash equivalents		
Cash and cash equivalents	Cash and cash equivalents	\$ 0.2	\$ —
Accounts receivable	Accounts receivable	34.0	33.6
Other current assets	Other current assets	6.7	5.9
Current assets of discontinued operations	Current assets of discontinued operations	—	4.5
Total current assets	Total current assets		
Total current assets	Total current assets	40.9	44.0
Property and equipment, net	Property and equipment, net	129.0	116.3
Operating lease right-of-use assets	Operating lease right-of-use assets	1.7	3.2
Goodwill	Goodwill	15.9	15.9
Intangible assets, net	Intangible assets, net	1.5	2.0

Other long-term assets	Other long-term assets	18.8	31.1
Long-term assets of discontinued operations		—	13.7
Other long-term assets			
Other long-term assets			
Total assets			
Total assets			
Total assets	Total assets	\$207.8	\$226.2
Liabilities	Liabilities		
Current liabilities:	Current liabilities:		
Current liabilities:			
Current liabilities:			
Current portion of long-term debt			
Current portion of long-term debt			
Current portion of long-term debt	Current portion of long-term debt	\$ 0.8	\$ 1.0
Current operating lease liabilities	Current operating lease liabilities	0.4	1.5
Accounts payable	Accounts payable	7.0	5.9
Accrued payroll	Accrued payroll	8.2	10.0
Other current liabilities	Other current liabilities	15.7	9.0
Current liabilities of discontinued operations		—	0.4
Other current liabilities			
Other current liabilities			
Total current liabilities			
Total current liabilities			
Total current liabilities	Total current liabilities	32.1	27.8
Long-term debt, net of current portion	Long-term debt, net of current portion	14.5	8.6
Long-term operating lease liabilities	Long-term operating lease liabilities	1.3	1.8
Total liabilities	Total liabilities	\$ 47.9	\$ 38.2
Total liabilities			
Total liabilities			

5. Cash and Marketable Securities:

The components of our investments as of December 31, 2023 are as follows (in millions):

	Cash & Cash Equivalents	Restricted Cash	Restricted Marketable Securities	Total
Cash	\$ 69.1	\$ 35.1	\$ —	\$ 104.2
Equity securities	—	—	126.2	126.2
Total	\$ 69.1	\$ 35.1	\$ 126.2	\$ 230.4

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The components of our investments as of December 31, 2022 are as follows (in millions):

	Cash & Cash Equivalents	Restricted Cash	Restricted Marketable Securities	Total
Cash	\$ 21.8	\$ 31.6	\$ —	\$ 53.4
Equity securities	—	—	110.0	110.0
Total	\$ 21.8	\$ 31.6	\$ 110.0	\$ 163.4

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The components of our investments as of December 31, 2021 are as follows (in millions):

	Cash & Cash Equivalents	Restricted Cash	Restricted Marketable Securities	Total
Cash	\$ 49.4	\$ 62.9	\$ —	\$ 112.3
Equity securities	—	—	82.2	82.2
Total	\$ 49.4	\$ 62.9	\$ 82.2	\$ 194.5

Restricted Cash—

Restricted cash consisted of the following (in millions):

	As of December 31,	As of December 31,	
	2022	2021	2022
Current:	Current:		
Affiliate cash	Affiliate cash	\$12.9 \$14.7	
Affiliate cash			
Affiliate cash			

Self-insured captive funds	Self-insured captive funds	17.3	47.8
Other	Other	1.4	—
Other			
Other			
Total restricted cash			
		31.6	62.5
Noncurrent:			
Self-insured captive funds		—	0.4
Total restricted cash		\$31.6	\$62.9

Affiliate cash represents cash accounts maintained by joint ventures in which we participate where one or more of our external partners requested, and we agreed, that the joint venture's cash not be commingled with other corporate cash accounts and be used only to fund the operations of those joint ventures. Self-insured captive funds represent cash held at our wholly owned insurance captive, HCS, Ltd., as discussed in Note 11, *Self-Insured Risks*. These funds are committed to pay third-party administrators for claims incurred and are restricted by insurance regulations and requirements. These funds cannot be used for purposes outside HCS without the permission of the Cayman Islands Monetary Authority.

The classification of restricted cash held by HCS as current or noncurrent depends on the classification of the corresponding claims liability.

Marketable Securities—

Restricted marketable securities at both balance sheet dates represent restricted assets held at HCS. HCS insures a substantial portion of Encompass Health's professional liability, workers' compensation, and other insurance claims. These funds are committed for payment of claims incurred, and the classification of these marketable securities as current or noncurrent depends on the classification of the corresponding claims liability. As of December 31, 2022 and 2021, \$79.1 million and \$82.2 million December 31, 2023, respectively, \$37.6 million of restricted marketable securities are included in *Other current assets* and \$88.6 million are included in *Other long-term assets* in our the consolidated balance sheets, sheet. As of December 31, 2022, \$30.9 million of restricted marketable securities are included in *Other current assets* and \$79.1 million are included in *Other long-term assets* in the consolidated balance sheet. During the years ended December 31, 2022 December 31, 2023, 2022, and 2021, and 2020, \$1.3 million, \$(7.4) million, \$0.6 million, and \$0.4 \$0.6 million, respectively, of unrealized net gains (losses) gains were recognized in our consolidated statements of comprehensive income on marketable securities still held at the reporting date.

Investing information related to our available-for-sale marketable securities is as follows (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
Proceeds from sales and maturities of available-for-sale marketable securities	\$ —	\$ —	\$ 12.6

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

6. Accounts Receivable:

Accounts receivable consists of the following (in millions):

As of December 31,		As of December 31,	
2022	2021	2023	2022

Current:	Current:		
Patient accounts receivable	Patient accounts receivable	\$524.8	\$502.1
Patient accounts receivable			
Patient accounts receivable			
Other accounts receivable	Other accounts receivable	12.0	13.7
		536.8	515.8
		611.6	
Noncurrent patient accounts receivable	Noncurrent patient accounts receivable	73.3	77.4
Accounts receivable	Accounts receivable	\$610.1	\$593.2

Because the resolution of claims that are part of Medicare audit programs can take several years, we review the patient receivables that are part of this adjudication process to determine their appropriate classification as either current or noncurrent. Amounts considered noncurrent are included in *Other long-term assets* in our consolidated balance sheet. See Note 1, *Summary of Significant Accounting Policies*, "Net Operating Revenues," for additional information.

7. Property and Equipment:

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

		As of December 31,		As of December 31,	
		2022	2021	2023	2022
Land	Land	\$ 286.1	\$ 259.8		
Buildings	Buildings	3,019.8	2,632.8		
Leasehold improvements	Leasehold improvements	281.5	251.1		
Vehicles	Vehicles	4.5	3.8		
Furniture, fixtures, and equipment	Furniture, fixtures, and equipment	647.2	571.0		
		4,239.1	3,718.5		
Less: Accumulated depreciation and amortization	Less: Accumulated depreciation and amortization	(1,659.4)	(1,490.5)		
		2,579.7	2,228.0		
Construction in progress	Construction in progress	359.5	353.2		
Property and equipment, net	Property and equipment, net	\$2,939.2	\$2,581.2		

As of December 31, 2022 December 31, 2023, approximately 68% 67% of our consolidated *Property and equipment, net* held by Encompass Health Corporation and its guarantor subsidiaries was pledged to the lenders under our credit agreement. See Note 10, *Long-term Debt*, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Liquidity and Capital Resources."

Depreciation expense was \$215.7 million, \$187.3 million, and \$160.4 million for the years ended December 31, 2023, 2022 and 2021, respectively. Interest capitalized was \$13.5 million, \$10.5 million, and \$8.9 million for the years ended December 31, 2023, 2022 and 2021, respectively.

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The amount of depreciation expense and interest capitalized is as follows (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
Depreciation expense	\$ 187.3	\$ 160.4	\$ 145.1
Interest capitalized	\$ 10.5	\$ 8.9	\$ 6.0

8. Leases:

We lease real estate, vehicles, and equipment under operating and finance leases with non-cancelable terms generally expiring at various dates through 2037. Our operating and finance leases generally have 1- to 25-year terms, with one or more renewal options, primarily relating to our real estate leases, with terms to be determined at the time of renewal. The exercise of such lease renewal options is at our sole discretion, and to the extent we are reasonably certain we will exercise a renewal option, the years related to that option are included in our determination of the lease term for purposes of classifying and measuring a given lease. Certain leases also include options to purchase the leased property.

The components of lease costs are as follows (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
Operating lease cost	\$ 38.7	\$ 46.7	\$ 50.2
Finance lease cost:			
Amortization of right-of-use assets	27.5	28.0	25.0
Interest on lease liabilities	29.0	30.7	28.8
Total finance lease cost	56.5	58.7	53.8
Short-term and variable lease cost	5.2	3.1	3.7
Sublease income	(2.9)	(3.1)	(3.2)
Total lease cost	\$ 97.5	\$ 105.4	\$ 104.5

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	For the Year Ended December 31,		
	2023	2022	2021
Operating lease cost	\$ 40.9	\$ 38.7	\$ 46.7
Finance lease cost:			
Amortization of right-of-use assets	25.7	27.5	28.0
Interest on lease liabilities	26.2	29.0	30.7
Total finance lease cost	51.9	56.5	58.7
Short-term and variable lease cost	2.9	5.2	3.1
Sublease income	(3.3)	(2.9)	(3.1)
Total lease cost	\$ 92.4	\$ 97.5	\$ 105.4

Supplemental consolidated balance sheet information related to leases is as follows (in millions):

As of December 31,

Classification		2022	2021		
As of December 31,				As of December 31,	
Classification				Classification	2023 2022
Assets	Assets				
Operating lease					
Operating lease					
Operating lease	Operating lease	Operating lease right-of-use assets	\$ 212.5	\$ 193.7	
Finance lease (1)	Finance lease (1)	Property and equipment, net	272.9	299.3	
Total leased assets	Total leased assets		\$ 485.4	\$ 493.0	
Liabilities	Liabilities				
Liabilities					
Liabilities					
Current liabilities:	Current liabilities:				
Current liabilities:					
Operating lease					
Operating lease					
Operating lease	Operating lease	Current operating lease liabilities	\$ 25.6	\$ 23.5	
Finance lease	Finance lease	Current portion of long-term debt	19.5	19.1	
Noncurrent liabilities:	Noncurrent liabilities:				
Operating lease	Operating lease	Long-term operating lease liabilities	199.7	179.6	
Operating lease					
Operating lease					
Finance lease	Finance lease	Long-term debt, net of current portion	340.3	361.2	
Total leased liabilities	Total leased liabilities		\$ 585.1	\$ 583.4	

(1) Finance lease assets are recorded net of accumulated amortization of \$145.8 million \$171.6 million and \$126.9 million \$145.8 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

		As of December 31,	
		2022	2021
Weighted Average Remaining Lease Term			
Operating lease		9.3 years	9.4 years
Finance lease		11.6 years	12.0 years
Weighted Average Discount Rate			
Operating lease		6.2 %	6.1 %
Finance lease		7.7 %	8.0 %

Maturities of lease liabilities as of December 31, 2022 are as follows (in millions):

Year Ending December 31,	Operating Leases	Finance Leases

2023	\$	38.4	\$	45.6
2024		40.3		46.5
2025		37.5		47.0
2026		34.3		47.9
2027		32.4		47.4
2028 and thereafter		119.5		316.6
Total lease payments		302.4		551.0
Less: Interest portion		(77.1)		(191.2)
Total lease liabilities	\$	225.3	\$	359.8

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	As of December 31,	
	2023	2022
Weighted Average Remaining Lease Term		
Operating lease	9.5 years	9.3 years
Finance lease	10.7 years	11.6 years
Weighted Average Discount Rate		
Operating lease	6.3 %	6.2 %
Finance lease	7.7 %	7.7 %

Maturities of lease liabilities as of December 31, 2023 are as follows (in millions):

Year Ending December 31,	As of December 31,	
	Operating Leases	Finance Leases
2024	\$ 37.0	\$ 46.3
2025	39.2	47.0
2026	37.4	47.9
2027	35.6	47.4
2028	34.6	46.4
2029 and thereafter	116.4	270.1
Total lease payments	300.2	505.1
Less: Interest portion	(80.0)	(165.0)
Total lease liabilities	\$ 220.2	\$ 340.1

Supplemental cash flow information related to our leases is as follows (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
	For the Year Ended December 31,		
	2023	2022	2021

Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	Operating cash flows from operating leases			
Operating cash flows from operating leases	Operating cash flows from operating leases	\$40.5	\$45.0	\$50.6
Operating cash flows from finance leases	Operating cash flows from finance leases	29.7	31.0	29.2
Financing cash flows from finance leases	Financing cash flows from finance leases	19.2	44.6	14.4
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:			
Right-of-use assets obtained in exchange for lease obligations:	Right-of-use assets obtained in exchange for lease obligations:			
Operating leases	Operating leases			
Operating leases	Operating leases			
Operating leases	Operating leases	\$48.7	\$26.9	\$26.2
Finance leases	Finance leases	1.0	46.4	24.2

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9. Goodwill and Other Intangible Assets:

The following table shows changes in the carrying amount of *Goodwill* (in millions):

	Amount
Goodwill as of December 31, 2019 December 31, 2020	\$ 1,218.9
Acquisitions	9.3
Goodwill as of December 31, 2020	1,228.2
Acquisitions	8.8
Goodwill as of December 31, 2021	1,237.0
Acquisitions	26.2
Goodwill as of December 31, 2022	1,263.2
Acquisitions	18.1
Goodwill as of December 31, 2023	\$ 1,263.2 1,281.3

Goodwill increased in 2020, 2021, 2022 and 2022 2023 as a result of our acquisitions of inpatient rehabilitation operations. For additional information on these acquisitions, see Note 3, *Business Combinations*.

We performed impairment reviews as of **October 1, 2022** October 1, 2023, 2021, 2022, and 2020 2021 and concluded no Goodwill impairment existed. As of **December 31, 2022** December 31, 2023, we had no accumulated impairment losses related to Goodwill.

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The following table provides information regarding our other intangible assets (in millions):

		Gross Carrying Amount	Accumulated Amortization	Net		Gross Carrying Amount	Accumulated Amortization	Net
Certificates of need:	Certificates of need:				Certificates of need:			
2023								
2022	2022	\$ 120.4	\$ (41.5)	\$ 78.9				
2021		115.3	(36.0)	79.3				
Licenses:	Licenses:				Licenses:			
2023								
2022	2022	\$ 65.7	\$ (54.3)	\$ 11.4				
2021		65.7	(53.2)	12.5				
Noncompetitive agreements:	Noncompetitive agreements:				Noncompetitive agreements:			
2023								
2022	2022	\$ 66.2	\$ (60.2)	\$ 6.0				
2021		65.3	(58.4)	6.9				
Trade name	Trade name							
-	-							
Encompass:	Encompass:							
2023								
2023								
2023								
2022	2022	\$ 135.2	\$ —	\$ 135.2				
2021		—	—	—				
Trade names - all other:	Trade names - all other:				Trade names - all other:			

2023					
2022	2022	\$ 37.5	\$ (20.8)	\$ 16.7	
2021		37.5	(19.5)	18.0	
Internal-use software:	Internal-use software:				Internal-use software:
2023					
2022	2022	\$ 183.2	\$ (150.3)	\$ 32.9	
2021		182.8	(142.6)	40.2	
Market access assets:	Market access assets:				
2023					
2023					
2023					
2022	2022	\$ 13.2	\$ (12.0)	\$ 1.2	
2021		13.2	(11.7)	1.5	
Total intangible assets:	Total intangible assets:				Total intangible assets:
2023					
2022	2022	\$ 621.4	\$ (339.1)	\$ 282.3	
2021		479.8	(321.4)	158.4	

Amortization expense for other intangible assets is as follows (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
Amortization expense	\$ 28.8	\$ 31.2	\$ 32.9

	For the Year Ended December 31,		
	2023	2022	2021
Amortization expense	\$ 32.5	\$ 28.8	\$ 31.2

Total estimated amortization expense for our other intangible assets for the next five years is as follows (in millions):

Year Ending December 31,	Year Ending December 31,	Estimated Amortization Expense	Estimated Amortization Expense
2023		\$ 25.0	
2024	2024	17.2	
2025	2025	11.6	
2026	2026	10.4	
2027	2027	10.0	
2028			

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10. Long-term Debt:

Our long-term debt outstanding consists of the following (in millions):

		As of December 31,		As of December 31,	
		2022	2021	2023	2022
Credit Agreement	Credit Agreement				
Advances under revolving credit facility	Advances under revolving credit facility	\$ 55.0	\$ 200.0		
Term loan facilities		—	238.5		
	Advances under revolving credit facility				
	Advances under revolving credit facility				
Bonds payable—	Bonds payable—				
5.125% Senior Notes due 2023		—	99.6		
	Bonds payable—				
	Bonds payable—				
	5.75% Senior Notes due 2025				
	5.75% Senior Notes due 2025				
5.75% Senior Notes due 2025	5.75% Senior Notes due 2025	347.7	347.0		
4.50% Senior Notes due 2028	4.50% Senior Notes due 2028	781.8	786.8		
4.75% Senior Notes due 2030	4.75% Senior Notes due 2030	779.0	784.7		
4.625% Senior Notes due 2031	4.625% Senior Notes due 2031	390.6	393.7		
Other notes payable	Other notes payable	53.1	47.7		
Finance lease obligations	Finance lease obligations	359.8	380.3		
		2,767.0	3,278.3		
Less: Current portion	Less: Current portion	(25.2)	(37.8)		
Long-term debt, net of current portion	Long-term debt, net of current portion	\$2,741.8	\$3,240.5		

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

Year Ending December 31,	Year Ending December 31,	Face Amount	Net Amount	Year Ending December 31,	Face Amount	Net Amount
2023	2023	\$ 25.2	\$ 25.2			
2024	2024	39.2	39.2			
2025	2025	381.8	379.5			
2026	2026	27.6	27.6			
2027	2027	96.6	96.6			
2028	2028					
Thereafter	Thereafter	2,247.5	2,198.9			
Total	Total	\$2,817.9	\$2,767.0			

As a result of the redemptions discussed below, we recorded a \$1.4 million, \$1.0 million, and \$2.3 1.0 million *Loss on early extinguishment of debt* in 2022 and 2021, and 2020, respectively. There were no redemptions resulting in a *Loss on early extinguishment of debt* during 2023.

Senior Secured Credit Agreement—

The credit agreement provides for a \$1 billion revolving credit facility, with a \$260 million letter of credit subfacility and a swingline loan subfacility, all of which mature in October 2027. The credit agreement previously provided for a \$270 million term loan commitment, the outstanding amount of which was repaid in June 2022.

Amounts drawn on the revolving credit facility bear interest at a rate per annum of, at our option, (1) secured overnight financing rate (“SOFR”) or (2) the higher of (a) Barclays Bank PLC’s prime rate and (b) the federal funds rate plus 0.5%, in each case, plus, in each case, an applicable margin that varies depending upon our leverage ratio. We are also subject to a commitment fee of 0.25% or 0.30%, depending on our leverage ratio, per annum on the daily amount of the unutilized commitments under the revolving credit facility. The current interest rate on SOFR borrowings under the credit agreement includes a credit spread of 1.50% 1.25%.

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The credit agreement contains affirmative and negative covenants and default and acceleration provisions, including a minimum interest coverage ratio and a maximum leverage ratio. Under one such negative covenant, we are restricted from paying common stock dividends, prepaying certain senior notes, making certain investments, and repurchasing preferred and common equity unless (1) we are not in default under the terms of the credit agreement and (2) our senior secured leverage ratio, as defined in the credit agreement, does not exceed 2x. In the event the senior secured leverage ratio exceeds 2x, these payments are subject to a limit of \$200 million plus the Available Amount, as defined in the credit agreement. Our obligations under the credit agreement are secured by the current and future personal property of the Company and its subsidiary guarantors.

In April 2020, we amended our existing credit agreement and the amendments included the following material provisions:

1. Amendment of The maximum leverage ratio in the financial covenants to update the applicable interest coverage ratio and leverage ratio included in that covenant. The revised applicable ratios are set forth below.

Fiscal Quarters Ending	Interest Coverage Ratio
December 31, 2019 and March 31, 2020	3.00 to 1.00
June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021	2.00 to 1.00
March 31, 2022 and thereafter	3.00 to 1.00

Fiscal Quarters Ending	Leverage Ratio
December 31, 2019 and March 31, 2020	4.50 to 1.00
June 30, 2020	4.75 to 1.00
September 30, 2020	5.50 to 1.00
December 31, 2020	6.50 to 1.00
March 31, 2021	6.50 to 1.00
June 30, 2021	6.00 to 1.00
September 30, 2021	5.50 to 1.00
December 31, 2021	5.00 to 1.00
March 31, 2022 and thereafter	4.25 to 1.00

2. Amendment of the definition of "Material Adverse Effect" to carve out the direct and indirect impacts of pandemic and the related legislative, regulatory and executive actions on us from that definition for a period of 364 days; and
3. Amendment of the investment limitation covenant and the restricted payment limitation covenant, to add to each a leverage ratio condition (not in excess of 4.50x) to the provisions allowing unlimited investments and restricted payments in the event certain conditions are met including a senior secured leverage ratio (not in excess of 2.00x) and the existence of no events of default in addition to the new leverage ratio condition.

In June 2022, we further amended our existing credit agreement and the amendments included the following material provisions:

1. Amendment of definition of "Consolidated Net Income" to exclude from the calculation thereof, at Encompass Health's option, net income or loss from disposed, abandoned, transferred, closed or discontinued operations until such disposition, abandonment, transfer, closure of discontinuance of operations shall have been consummated.
2. Addition of Section 1.08, "SpinCo Credit Facilities Transactions," to provide that the Loan Documents will not prevent the consummation of the SpinCo Credit Facilities Transactions and that the SpinCo Credit Facilities Transactions will not give rise to any Default or constitute a utilization of any basket under any Loan Document.

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3. Amendment of Section 2.11(e) to provide that a Prepayment Notice may be conditioned upon the effectiveness of other credit facilities, indentures or similar agreements or other transactions.
4. Addition of Section 5.18, "SpinCo Distribution," to provide that within three (3) Business Days following the incurrence of indebtedness under the SpinCo Credit Facilities, Encompass will have consummated the SpinCo Distribution in compliance with the Restricted Payments covenants of the Credit Agreement, and following the consummation of the SpinCo Distribution, no obligors in respect of the SpinCo Credit Facilities will be Restricted Subsidiaries.
5. Amendment of the definition of "Senior Notes" to include Encompass' 4.625% Senior Notes due 2031 and the definition of "Consolidated Total Indebtedness" to exclude Indebtedness under any Senior Note for which an irrevocable notice of redemption has been issued in connection with or incidental to any SpinCo Distribution.

In October 2022, we further amended our existing credit agreement and the amendments included the following material provisions:

1. Amendment of the definition of "Maturity Date" for the revolving borrowings to October 7, 2027.
2. Change the reference rate for borrowings from LIBOR to SOFR.
3. Reduction of the fee for the undrawn portion of the revolving loan commitment from 37.5 basis points to a maximum of 30 basis points and a minimum of 25 basis points, with such rate to be determined based on the Leverage Ratio is 4.75x as of the most recently ended four quarter period.
4. Restatement of the Leverage Ratio maintenance covenant in Section 6.01(b) to the following:

On the last day of each fiscal quarter, the Borrower will not permit the Leverage Ratio, calculated as of the end of each such fiscal quarter occurring during the time periods set forth below on a pro forma basis, to exceed the ratio set forth below opposite the time period during which such fiscal quarter ends; provided, however, that the Borrower may elect (the "Step-Up Election") at any time after the Effective Date to increase the maximum Leverage Ratio permitted hereunder by 0.50 to 1.00 for the 4 immediately succeeding fiscal quarters as of and immediately following the consummation of any Significant Acquisition, in each case, by providing a written notice to the Administrative Agent of such Step-Up Election prior to the last day of the first fiscal quarter for which the Step-Up Election is to take effect (this sentence, the "Leverage Covenant") **December 31, 2023**. Upon the expiration of the Step-Up Election, the maximum Leverage Ratio permitted under the Leverage Covenant shall revert to the Leverage Ratio set forth below for at least two consecutive fiscal quarters before the Borrower may make another Step-Up Election.

Fiscal Quarters Ending	Leverage Ratio
September 30, 2022 – September 30, 2024	4.75 to 1.00
December 31, 2024 and thereafter	4.50 to 1.00

5. Insertion of an add back of certain restructuring charges and synergies in calculating Adjusted Consolidated EBITDA under the credit agreement.
6. Amendment of definition of "Available Amount" to include a \$900 million "starter amount" and a "grower component" tied to 50% of cumulative Consolidated Net Income.
7. Amendment of certain negative covenant baskets to include a "grower component" tied to a percentage of Adjusted Consolidated EBITDA for a trailing 12-month period.

In June 2022, Enhabit distributed \$566.6 million to Encompass Health who used it to fully repay both the \$250 million outstanding balance of the Encompass Health revolving credit facility and approximately \$236 million of the Encompass Health term loan. Currently, there are no term loan commitments under the credit agreement.

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As of December 31, 2022 December 31, 2023, \$55 million no were amount was drawn under the revolving credit facility with an interest rate of 7.0%, facility. As of December 31, 2021, 2022, \$200 million \$55 million were drawn under the revolving credit facility with an interest rate of 2.6% 7.0%. As of December 31, 2022 December 31, 2023 and 2021, \$32.7 million 2022, \$31.9 million and \$38.2 million \$32.7 million, respectively, were being utilized under the letter of credit subfacility, which were being used in the ordinary course of business to secure workers' compensation and other insurance coverages and for general corporate purposes.

Bonds Payable—

Senior Notes

The Company's 5.125% Senior Notes due 2023 ("the 2023 Notes"), 5.75% Senior Notes due 2025 (the "2025 Notes"), 4.50% Senior Notes due 2028 (the "2028 Notes"), 4.75% Senior Notes due 2030 (the "2030 Notes"), and 4.625% Senior Notes due 2031 (the "2031 Notes" and collectively the "Senior Notes") were issued pursuant to an indenture (the "Base Indenture") dated as of December 1, 2009, as supplemented by each Senior Notes' respective supplemental indenture (together with the Base Indenture, the "Indenture"). Pursuant to the terms of the Indenture, the Senior Notes are jointly and severally guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our credit agreement and other capital markets debt. The Senior Notes are senior, unsecured obligations of Encompass Health and rank equally with our other senior indebtedness, senior to any of our subordinated indebtedness, and effectively junior to our secured indebtedness to the extent of the value of the collateral securing such indebtedness.

Upon the occurrence of a change in control (as defined in the Indenture), each holder of the Senior Notes may require us to repurchase all or a portion of the notes in cash at a price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest.

The Senior Notes contain covenants and default and acceleration provisions, that, among other things, limit our and certain of our subsidiaries' ability to (1) incur additional debt, (2) make certain restricted payments, (3) consummate specified asset sales, (4) incur liens, and (5) merge or consolidate with another person.

On December 9, 2021, we announced the commencement of a consent solicitation of holders of the 2025 Notes, 2028 Notes, 2030 Notes, and 2031 Notes (collectively the "Notes") for the adoption of certain amendments to the Indenture, which provided us with greater flexibility in effecting the Spin Off discussed in Note 2, *Spin Off of Home Health and Hospice Business*. Each Indenture contains restrictive covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to make certain asset dispositions, investments, and distributions to holders of our capital stock. The amendments to the Indentures permit us, subject to the leverage ratio condition set forth below, to distribute to our equity holders in one or more transactions (a "Distribution") some or all of the common stock of a subsidiary that holds substantially all of the assets of our home health and hospice business. We may make any such distribution so long as the Leverage Ratio (as defined in each Indenture) is no more than 3.5 to 1.0 on a pro forma basis after giving effect thereto. The amendments also reduce the capacity under our restricted payments builder basket under each existing Indenture for the 2028 Notes, 2030 Notes, and 2031 Notes by \$200 million and amends the definition of "Consolidated Net Income" to allow us to exclude from Consolidated Net Income (a component of the Leverage Ratio) any fees, expenses or charges related to any Distribution and the solicitation of consents from the holders of the Notes. In December 2021 and January 2022, we received the requisite consents for the adoption of these amendments. Under the terms of the amendments, we agreed to pay the holders of the Notes a total of \$40.5 million, excluding fees. We paid \$20.0 million and \$20.5 million in January and June 2022, respectively.

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2023 Notes

In March 2015, we issued \$300 million of the 2023 Notes at par. In both April and June 2021, we redeemed \$100 million in outstanding principal amount of the 2023 Notes using cash on hand and capacity under our revolving credit facility. Pursuant to the terms of the 2023 Notes, these optional redemptions were made at a price of par. In March 2022, we redeemed the remaining \$100 million in outstanding principal amount of the 2023 Notes using capacity under our revolving credit facility. Pursuant to the terms of the 2023 Notes, this optional redemption was made at a price of par. The 2023 Notes would have matured on March 15, 2023. Inclusive of financing costs, the effective interest rate on the 2023 Notes was 5.4%. Interest on the 2023 Notes was payable semiannually in arrears on March 15 and September 15.

2025 Notes

In September 2015, we issued \$350 million of the 2025 Notes at par. The 2025 Notes mature on September 15, 2025 and bear interest at a per annum rate of 5.75%. Inclusive of financing costs, the effective interest rate on the 2025 Notes is 6.0%. Interest on the 2025 Notes is payable semiannually in arrears on March 15 and September 15.

We may redeem the 2025 Notes at par, in whole or in part, at any time on or after September 15, 2022, at the redemption prices set forth below:

<u>Period</u>	<u>Redemption Price*</u>
2022	100.958 %
September 15, 2023 and thereafter	100.000 %

* Expressed in percentage of principal amount September 15, 2023.

2028 and 2030 Notes

In September 2019, we issued \$500 million of the 2028 Notes at par and \$500 million of the 2030 Notes at par. Certain of the proceeds from this offering were used to fund the purchase of equity rights from management investors of our former home health and hospice business discussed in Note 12, *Redeemable Noncontrolling Interests*.

In May 2020, we issued an additional \$300 million of the 2028 Notes at a price of 99.0% of the principal amount and an additional \$300 million of the 2030 Notes at a price of 98.5% of the principal amount, which resulted in approximately \$583 million in net proceeds. We used a portion of the net proceeds from this borrowing, together with cash on hand, to repay borrowings under our revolving credit facility.

The 2028 Notes mature on February 1, 2028. Inclusive of financing costs, the effective interest rate on the 2028 Notes is 4.8% 5.0%. Interest on the 2028 Notes is payable semiannually in arrears on February 1 and August 1. We may redeem the 2028 Notes, in whole or in part, at any time on or after February 1, 2023 at the redemption prices set forth below:

<u>Period</u>	<u>Redemption Price*</u>
2023	102.250 %
2024	101.125 %
2025 and thereafter	100.000 %

* Expressed in percentage of principal amount

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The 2030 Notes mature on February 1, 2030. Inclusive of financing costs, the effective interest rate on the 2030 Notes is 5.2%. Interest on the 2030 Notes is payable semiannually in arrears on February 1 and August 1. We may redeem the 2030 Notes, in whole or in part, at any time on or after February 1, 2025 at the redemption prices set forth below:

<u>Period</u>	<u>Redemption Price*</u>
2025	102.375 %
2026	101.583 %
2027	100.792 %
2028 and thereafter	100.000 %

* Expressed in percentage of principal amount

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2031 Notes

In October 2020, we issued \$400 million of the 2031 Notes at par. The 2031 Notes mature on April 1, 2031 and bear interest at a per annum rate of 4.625%. Inclusive of financing costs, the effective interest rate on the 2031 Notes is 5.0%. Interest is payable semiannually in arrears on April 1 and October 1 of each year. We may redeem the 2031 Notes, in whole or in part, at any time on or after April 1, 2026 at the redemption prices set forth below:

Period	Redemption Price*
2026	102.313 %
2027	101.542 %
2028	100.771 %
2029 and thereafter	100.000 %

* Expressed in percentage of principal amount

Former 2024 2023 Notes

In November 2020, March 2021, we issued \$300 million of the 2023 Notes at par. In both April and June 2021, we redeemed the remaining \$700 \$100 million of in outstanding principal amount of the 5.75% 5.125% Senior Notes due 2024 ("the Former 2024 Notes"), 2023 (the "Former 2023 Notes") using cash on hand and capacity under our revolving credit facility. Pursuant to the terms of the Former 2024 2023 Notes, these optional redemptions were made at a price of par. In March 2022, we redeemed the remaining \$100 million in outstanding principal amount of the Former 2023 Notes using capacity under our revolving credit facility. Pursuant to the terms of the Former 2023 Notes, this full optional redemption was made at a price of par. We used the net proceeds from the 2031 Notes offering, discussed above, together with approximately \$300 million of cash on hand to fund the redemption. The Former 2024 2023 Notes would have matured on November 1, 2024 March 15, 2023. Inclusive of premiums and financing costs, the effective interest rate on the Former 2024 2023 Notes was 5.8% 5.4%. Interest on the Former 2023 Notes was payable semiannually in arrears on May 1 March 15 and November 1 of each year. September 15.

Other Notes Payable—

Our notes payable consist of the following (in millions):

		As of December 31,		Interest Rates					Interest Rates
		2022	2021						
As of December 31,		2023		Interest Rates					Interest Rates
		2023							
				Interest Rates					Interest Rates
		2022	2021						
Sale/leaseback transactions involving real estate accounted for as financings	Sale/leaseback transactions involving real estate accounted for as financings	\$28.0	\$28.0	6.1% to 11.2%	Sale/leaseback transactions involving real estate accounted for as financings	\$28.0	\$	\$28.0	9.2% to 13.4%
				5.0% to 5.5%					
Construction of a new hospital		20.7	11.0	5.0% to 5.5%					
Construction of new hospitals									
Construction of new hospitals									
Construction of new hospitals					38.0		20.7		5.0% to 5.5%
Software contracts	Software contracts	4.4	8.7	2.8%	Software contracts	—	4.4	4.4	2.8%
Other notes payable	Other notes payable	\$53.1	\$47.7						

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11. Self-Insured Risks:

We insure a substantial portion of our professional liability, general liability, and workers' compensation risks through a self-insured retention program ("SIR") underwritten by our consolidated wholly owned offshore captive insurance subsidiary, HCS, Ltd., which we fund via regularly scheduled premium payments. HCS is an insurance company licensed by the Cayman Island Monetary Authority. We use HCS to fund the first \$45 million for annual aggregate losses associated with general and professional liability risks. Workers' compensation exposures are capped on a per claim basis. Risks in excess of specified limits per claim and in excess of our aggregate SIR amount are covered by unrelated commercial carriers.

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The following table presents the changes in our self-insurance reserves (in millions):

		2022	2021	2020			
	2023				2023	2022	2021
Balance at beginning of period, gross	Balance at beginning of period, gross	\$169.4	\$165.2	\$157.3			
Less: Reinsurance receivables	Less: Reinsurance receivables	(30.0)	(28.3)	(26.4)			
Balance at beginning of period, net	Balance at beginning of period, net	139.4	136.9	130.9			
Increase for the provision of current year claims	Increase for the provision of current year claims	50.5	46.9	52.5			
Decrease for the provision of prior year claims	Decrease for the provision of prior year claims	(8.2)	(6.8)	(15.0)			
Expenses related to discontinued operations	Expenses related to discontinued operations	—	(0.2)	(0.2)			
Expenses related to discontinued operations	Expenses related to discontinued operations						
Payments related to current year claims	Payments related to current year claims	(7.1)	(7.0)	(8.4)			
Payments related to prior year claims	Payments related to prior year claims	(31.8)	(30.4)	(22.9)			
Balance at end of period, net	Balance at end of period, net	142.8	139.4	136.9			
Balance at end of period, net	Balance at end of period, net						

Add:	Add:			
Reinsurance	Reinsurance			
receivables	receivables	32.3	30.0	28.3
Balance at	Balance at			
end of	end of			
period, gross	period, gross	<u>\$175.1</u>	<u>\$169.4</u>	<u>\$165.2</u>

As of **December 31, 2022** **December 31, 2023** and **2021**, **2022**, **\$52.7 million** and **\$46.6 million** and **\$45.6 million**, respectively, of these reserves are included in *Other current liabilities* in our consolidated balance sheets.

Provisions for these risks are based primarily upon actuarially determined estimates. These reserves represent the unpaid portion of the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated ultimate loss amounts are included in current operating results.

The reserves for these self-insured risks cover approximately 1,100 and 1,200 individual claims at **December 31, 2022** **December 31, 2023** and **2021**, respectively, **2022**, and estimates for potential unreported claims. The time period required to resolve these claims can vary depending upon the jurisdiction, the nature, and the form of resolution of the claims. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in reserve estimates, management believes the reserves for losses and loss expenses are adequate; however, there can be no assurance the ultimate liability will not exceed management's estimates.

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12. Redeemable Noncontrolling Interests:

The following is a summary of the activity related to our *Redeemable noncontrolling interests* (in millions):

	For the Year Ended December 31,			For the Year Ended December 31,		
	2023	2023	2022	2021	2020	2019
Balance at beginning of period						
Net income attributable to noncontrolling interests						
Net income attributable to noncontrolling interests						
Net income attributable to noncontrolling interests						
Distributions declared						
Balance at beginning of period	\$42.2	\$31.6	\$239.6			
Net income attributable to noncontrolling interests	7.2	9.0	7.4			

Distributions declared	(5.3)	(8.0)	(8.5)	
Contribution to joint ventures	—	—	3.1	
Change in fair value				
Purchase of redeemable noncontrolling interests	—	—	(162.3)	
Exchange transaction	—	—	(46.3)	
Change in fair value				
Change in fair value	Change in fair value	(3.4)	4.5	(1.4)
Other	Other	0.1	5.1	—
Spin off of Enhabit, Inc.	Spin off of Enhabit, Inc.	(5.2)	—	—
Balance at end of period	Balance at end of period	\$35.6	\$42.2	\$ 31.6

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The following table reconciles the net income attributable to nonredeemable *Noncontrolling interests*, as recorded in the shareholders' equity section of the consolidated balance sheets, and the net income attributable to *Redeemable noncontrolling interests*, as recorded in the mezzanine section of the consolidated balance sheets, to the *Net income attributable to noncontrolling interests* presented in the consolidated statements of comprehensive income (in millions):

	For the Year Ended December 31,		
	2022	2021	2020
Net income attributable to nonredeemable noncontrolling interests	\$ 87.7	\$ 96.0	\$ 77.2
Net income attributable to redeemable noncontrolling interests	7.2	9.0	7.4
Net income attributable to noncontrolling interests	\$ 94.9	\$ 105.0	\$ 84.6

On December 31, 2014, we acquired 83.3% of our former home health and hospice business when we purchased EHHI Holdings, Inc. ("EHHI"). In the acquisition, we acquired all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to Encompass Health Home Health Holdings, Inc. ("Holdings"), a subsidiary of Encompass Health and an indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. Those sellers were members of EHHI management, and they contributed a portion of their shares of common stock of EHHI, valued at approximately \$64 million on the acquisition date, in exchange for approximately 16.7% of the outstanding shares of common stock of Holdings. At any time after December 31, 2017, each management investor had the right (but not the obligation) to have his or her shares of Holdings stock repurchased by Encompass Health for a cash purchase price per share equal to the fair value. In February 2018, each management investor exercised the right to sell one-third of his or her shares of Holdings stock to Encompass Health, representing approximately 5.6% of the outstanding shares of the common stock of Holdings. On February 21, 2018, Encompass Health settled the acquisition of those shares upon payment of approximately \$65 million in cash. In July 2019, we received additional exercise notices, representing approximately 5.6% of the outstanding shares of the common stock of Holdings. In September 2019, Encompass Health settled the acquisition of those shares upon payment of approximately \$163 million in cash. In January 2020, we received additional exercise notices, representing approximately 4.3% of the outstanding shares of the common stock of Holdings. On February 18, 2020, Encompass Health settled the acquisition of those shares upon payment of approximately \$162 million in cash. Upon settlement of these exercises, approximately \$46 million of the shares of Holdings held by two management investors remained outstanding.

On February 20, 2020, Encompass Health entered into exchange agreements (each, an "Exchange Agreement") with these two management investors, pursuant to which they had the right to exchange all of the remaining shares of Holdings held by them for shares of common stock of Encompass Health (the "EHC Shares"). Each of the Exchange Agreements provided that the management investor must deliver a written exchange notice (an "Exchange Notice") to Encompass Health in order to

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exchange his or her remaining shares of Holdings for EHC Shares. Each Exchange Agreement further provided that the number of EHC Shares to be delivered to the management investor was to be determined by dividing the fair value of the shares of Holdings held by the management investor on the date of the Exchange Agreement by the last reported sales price of Encompass Health's common stock on the New York Stock Exchange (the "NYSE") on the date of delivery of the Exchange Notice.

On February 20, 2020, Encompass Health received an Exchange Notice from each of the management investors. Based on the last sales price of Encompass Health's common stock on the NYSE on February 20, 2020, Encompass Health delivered an aggregate 560,957 EHC Shares to the management investors. The total number of EHC Shares issued pursuant to the exchange agreements on March 6, 2020 represented less than 0.6% of the outstanding shares of Encompass Health common stock. Encompass Health issued the EHC Shares from its treasury shares.

	For the Year Ended December 31,		
	2023	2022	2021
Net income attributable to nonredeemable noncontrolling interests	\$ 102.7	\$ 87.7	\$ 96.0
Net income attributable to redeemable noncontrolling interests	8.3	7.2	9.0
Net income attributable to noncontrolling interests	\$ 111.0	\$ 94.9	\$ 105.0

13. Fair Value Measurements:

Our financial assets and liabilities that are measured at fair value on a recurring basis are as follows (in millions):

Fair Value Measurements at Reporting Date Using		Fair Value Measurements at Reporting Date Using				
As of December 31, 2023	As of December 31, 2023	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (1)
Equity securities						
Equity securities						
Equity securities		\$126.2	\$ 4.0	\$ 122.2	\$ —	M
Redeemable noncontrolling interests						
Redeemable noncontrolling interests						
Redeemable noncontrolling interests		42.0	—	—	42.0	I
As of December 31, 2022	As of December 31, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (1)
Equity securities ⁽²⁾		\$110.0	\$ 3.7	\$ 106.3	\$ —	M
Equity securities						
Equity securities						
Equity securities		\$110.0	\$ 3.7	\$ 106.3	\$ —	M

Redeemable noncontrolling interests	Redeemable noncontrolling interests	35.6	—	—	35.6	I
As of December 31, 2021						
Equity securities ⁽²⁾		\$ 82.2	\$ 4.1	\$ 78.1	\$ —	M
Redeemable noncontrolling interests	Redeemable noncontrolling interests	42.2	—	—	42.2	I
Redeemable noncontrolling interests						
		35.6	—	—	35.6	I

(1) The three valuation techniques are: market approach (M), cost approach (C), and income approach (I).

(2) As of December 31, 2022, \$30.9 million are included in *Other current assets* and \$79.1 million are included in *Other long-term assets* in the consolidated balance sheet. As of December 31, 2021, \$82.2 million are included in *Other long-term assets* in the consolidated balance sheet.

There are assets and liabilities that are not required to be measured at fair value on a recurring basis. However, these assets may be recorded at fair value as a result of impairment charges or other adjustments made to the carrying value of the applicable assets. During the years ended **December 31, 2022**, **December 31, 2023**, **2021**, **2022**, and **2020**, **2021**, we did not record any material gains or losses related to these assets.

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As discussed in Note 1, *Summary of Significant Accounting Policies*, "Fair Value Measurements," the carrying value equals fair value for our financial instruments that are not included in the table below and are classified as current in our consolidated balance sheets. The carrying amounts and estimated fair values for our other financial instruments are presented in the following table (in millions):

		As of December 31, 2022		As of December 31, 2021		As of December 31, 2023		As of December 31, 2022	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:	Long-term debt:					Long-term debt:			
Advances under revolving credit facility	Advances under revolving credit facility	\$ 55.0	\$ 55.0	\$ 200.0	\$ 200.0				
Term loan facilities		—	—	238.5	239.6				
5.125% Senior Notes due 2023		—	—	99.6	100.2				
5.75% Senior Notes due 2025									
5.75% Senior Notes due 2025									
5.75% Senior Notes due 2025	5.75% Senior Notes due 2025	347.7	347.7	347.0	357.9				
4.50% Senior Notes due 2028	4.50% Senior Notes due 2028	781.8	726.7	786.8	823.0				
4.75% Senior Notes due 2030	4.75% Senior Notes due 2030	779.0	703.7	784.7	824.0				

4.625% Senior Notes due 2031	4.625% Senior Notes due 2031	390.6	342.2	393.7	407.0
Other notes payable	Other notes payable	53.1	53.1	47.7	47.7
Financial commitments: Letters of credit	Financial commitments: Letters of credit	—	32.7	—	38.2

Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or *Level 2* inputs within the fair value hierarchy. See Note 1, *Summary of Significant Accounting Policies*, "Fair Value Measurements" and "Redeemable Noncontrolling Interests."

14. Share-Based Payments:

The Company has awarded employee stock-based compensation in the form of stock options and restricted stock awards ("RSAs") under the terms of share-based incentive plans designed to align employee and executive interests to those of its stockholders. All employee stock-based compensation awarded during 2023, 2022, 2021, and 2020 2021 was issued under the 2016 Omnibus Performance Incentive Plan, a stockholder-approved plan that reserves and provides for the grant of up to 16,860,765 shares of common stock after adjustment for the effect of the Spin Off. This plan allows for the grants of nonqualified stock options, incentive stock options, restricted stock, stock appreciate rights, performance shares, performance share units, dividend equivalents, restricted stock units ("RSUs"), and/or other stock-based awards. Stock-based compensation expense recognized in continuing operations was \$50.6 million, \$29.2 million, and \$29.1 million during 2023, 2022, and \$25.6 million during 2022, 2021, and 2020, respectively. Stock-based compensation expense classified as discontinued operations was \$2.5 million \$3.6 million, and \$3.9 \$3.6 million during 2022 2021, and 2020, 2021, respectively.

Stock Options—

Under our share-based incentive plans, officers and employees are given the right to purchase shares of Encompass Health common stock at a fixed grant price determined on the day the options are granted. The terms and conditions of the options, including exercise prices and the periods in which options are exercisable, are generally at the discretion of the compensation and human capital committee of our board of directors. However, no options are exercisable beyond ten years from the date of grant. Granted options vest over the awards' requisite service periods, which are generally three years.

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The fair values of the options granted during the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020 2021 have been estimated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

		For the Year Ended December 31,					For the Year Ended December 31,		
		2022	2021	2020			2023	2022	2021
Expected volatility	Expected volatility	28.3 %	28.4 %	24.8 %	Expected volatility		28.5 %	28.3 %	28.4 %
Risk-free interest rate	Risk-free interest rate	1.7 %	1.1 %	1.0 %	Risk-free interest rate		4.2 %	1.7 %	1.1 %
Expected life (years)	Expected life (years)	7.8	7.1	7.1	Expected life (years)		6.9	7.8	7.1
Dividend yield	Dividend yield	1.9 %	1.9 %	2.0 %	Dividend yield		1.1 %	1.9 %	1.9 %

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the expected stock price volatility. We estimate our expected term through an analysis of actual, historical post-vesting exercise, cancellation, and expiration behavior by our officers and employees and projected post-vesting activity of outstanding options. We calculate volatility based on the historical volatility of our common stock over the period commensurate with the expected term of the options. The risk-free interest rate is the implied daily yield currently available on U.S. Treasury issues with a remaining term closely approximating the expected term used as the input to the Black-Scholes option-pricing model. We estimated our dividend yield based on our annual dividend rate and our stock price on the dividend payment dates. Under the Black-Scholes option-pricing model,

the weighted-average grant date fair value per share of employee stock options granted during the years ended **December 31, 2022** **December 31, 2023**, **2021**, **2022**, and **2020** **2021** was \$**17.29**, **19.23**, **\$19.21**, **\$17.29**, and **\$15.48**, **\$19.21**, respectively.

A summary of our stock option activity and related information is as follows:

	Shares (In Thousands)	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Life (Years)	Aggregate Intrinsic Value (In Millions)
Outstanding, December 31, 2021	711	\$ 54.33		
Granted ⁽¹⁾	117	66.39		
Exercised ⁽¹⁾	(47)	20.60		
Enhabit spin-off adjustment ⁽²⁾	55	51.65		
Outstanding, December 31, 2022	836	47.12	5.6	\$ 11.7
Exercisable, December 31, 2022	621	42.65	4.6	11.2

⁽¹⁾ Options activity represents historical grant values prior to the Spin Off.

⁽²⁾ In connection with the Spin Off, all outstanding Encompass Health stock options (whether vested or unvested) were converted into adjusted Encompass Health awards for current and former Encompass Health employees or Enhabit awards for Enhabit employees. Such adjusted awards preserved the same intrinsic value and general terms and conditions (including vesting) as were in place immediately prior to the adjustments.

	Shares (In Thousands)	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Life (Years)	Aggregate Intrinsic Value (In Millions)
Outstanding, December 31, 2022	836	\$ 47.12		
Granted	77	56.21		
Exercised	(60)	24.61		
Outstanding, December 31, 2023	853	49.52	5.4	\$ 14.7
Exercisable, December 31, 2023	667	47.25	4.5	13.0

We recognized approximately \$2.5 million, \$1.2 million, \$2.2 million, and \$1.5 \$2.2 million of compensation expense related to our stock options for the years ended **December 31, 2022** **December 31, 2023**, **2021**, **2022**, and **2020**, **2021**, respectively. As of **December 31, 2022** **December 31, 2023**, there was \$1.5 million \$0.5 million of unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 23 15 months. The total intrinsic value of options exercised during the years ended **December 31, 2022** **December 31, 2023**, **2022**, and **2021** and **2020** was \$1.8 million \$2.5 million, \$0.1 million \$1.8 million, and \$2.3 million \$0.1 million, respectively.

Restricted Stock—

The RSAs granted in **2023**, **2022**, **2021**, and **2020** **2021** included service-based awards and performance-based awards (that also included a service requirement). These awards generally vest over a three-year requisite service period. For RSAs with a service and/or performance requirement, the fair value of the RSA is determined by the closing price of our common stock on the grant date. A portion of the RSAs granted in 2023 also includes a market condition for certain members of management. For awards with a market condition, the fair value of the market condition component of the RSAs is determined using a lattice model. Inputs into the model include the historical price volatility of our common stock, the historical volatility of the common stock of the companies in the defined peer group, and the risk-free interest rate. Utilizing these inputs and potential future changes in stock prices, multiple trials are run to determine the fair value.

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A summary of our issued restricted stock awards is as follows (share information in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at December 31, 2021	454	\$ 74.46
Granted ⁽¹⁾	425	74.08
Vested ⁽¹⁾	(306)	70.92
Forfeited ⁽²⁾	(31)	71.35

Enhabit spin-off adjustment ⁽³⁾	(16)	62.87
Nonvested shares at December 31, 2022	526	63.35

⁽¹⁾ RSA activity represents historical grant values prior to the Spin Off.

⁽²⁾ Forfeiture activity prior to the Spin Off represents historical grant values, while the post-spin forfeitures reflects the impact of Spin Off.

⁽³⁾ In connection with the Spin Off, all outstanding RSAs (whether vested or unvested) were converted into adjusted Encompass Health awards for current Encompass Health employees or Enhabit awards for Enhabit employees. Such adjusted awards preserved the same intrinsic value and general terms and conditions (including vesting) as were in place immediately prior to the adjustments.

	Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at December 31, 2022	526	\$ 63.35
Granted	582	65.20
Vested	(367)	65.75
Forfeited	(35)	62.69
Nonvested shares at December 31, 2023	706	63.60

The weighted-average grant-date fair value of restricted stock granted during the years ended December 31, 2021, December 31, 2022, and 2020, 2021 was \$73.89, \$74.08 and \$61.81, \$73.89 per share, respectively. We recognized approximately \$46.6 million, \$26.4 million, \$24.9 million, and \$22.0, \$24.9 million of compensation expense related to our restricted stock awards for the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021, respectively. As of December 31, 2022, December 31, 2023, there was \$30.0 million, \$38.3 million of unrecognized compensation expense related to unvested restricted stock. This cost is expected to be recognized over a weighted-average period of 20, 21 months. The remaining unrecognized compensation expense for the performance-based awards may vary each reporting period based on changes in the expected achievement of performance measures. The total fair value of shares vested during the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021 was \$20.0 million, \$24.3 million, \$32.6 million, \$20.0 million, and \$41.4 million, \$32.6 million, respectively. We accrue dividends on outstanding RSAs, which are paid upon vesting.

Nonemployee Stock-Based Compensation Plans—

During the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021, we provided incentives to our nonemployee members of our board of directors through the issuance of RSUs out of our share-based incentive plans. RSUs are fully vested when awarded and receive dividend equivalents in the form of additional RSUs upon the payment of a cash dividend on our common stock. During the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021, we issued 32,365, 22,469, 24,043, and 32,196, 24,043 RSUs, respectively, with a fair value of \$63.00, \$67.42, \$84.83, and \$65.39, \$84.83, respectively, per unit. We recognized approximately \$1.5 million, \$2.0 million, \$1.5 million, and \$2.1 million, \$2.0 million, respectively, of compensation expense upon their issuance in 2023, 2022, 2021, and 2020, 2021. There was no unrecognized compensation related to unvested shares as of December 31, 2022, December 31, 2023. During the years ended 2022, 2023, 2021, 2022, and 2020, 2021, we issued an additional 11,976, 7,518, 8,577, 11,976, and 8,987, 8,577, respectively, of RSUs as dividend equivalents. As of December 31, 2022, December 31, 2023, 775,312, 807,677 RSUs were outstanding. In addition to the above, we issued 130,406 additional RSUs in 2022 to current and former members of our board of directors in connection with the Spin Off. Such adjusted awards preserved the same intrinsic value and general terms and conditions (including vesting) as were in place immediately prior to the adjustments.

15. Employee Benefit Plans:

Substantially all Encompass Health employees are eligible to enroll in Encompass Health-sponsored healthcare plans, including coverage for medical and dental benefits. Our primary healthcare plans are national plans administered by third-party administrators. We are self-insured for these plans. During 2023, 2022, 2021, and 2020, 2021, costs associated with these plans, net of amounts paid by employees, approximated \$174.5 million, \$186.2 million, \$166.0 million, \$174.5 million, and \$145.4 million, \$166.0 million, respectively.

The Encompass Health Corporation 401(k) Retirement Investment Plan (the "RIP" "401(k) Plan") is a qualified 401(k) savings plan. The RIP 401(k) Plan allows eligible employees to contribute up to 100% of their pay on a pre-tax basis into their individual retirement account in the plan subject to the normal maximum limits set annually by the Internal Revenue Service. Encompass Health employees who are at least 21 years of age are eligible to participate in the RIP 401(k) Plan and all contributions to the plan are in the form of cash. Encompass

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Health's employer matching contribution under the RIP 401(k) Plan is 50% of the first 6% of each participant's elective deferrals, which vest 100% after three years of service. Participants are always fully vested in their own contributions.

Employer contributions to the RIP 401(k) Plan approximated \$28.7 million, \$31.3 million, \$26.4 million, \$28.7 million, and \$23.3 million, \$26.4 million in 2023, 2022, 2021, and 2020, 2021, respectively. In 2023, 2022, and 2021, and 2020, approximately \$1.1 million, \$1.4 million, \$1.1 million, and \$1.3 million, \$1.1 million, respectively, from forfeited accounts were used to fund the matching contributions in accordance with the terms of the RIP 401(k) Plan.

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Senior Management Bonus Program—

We maintain a Senior Management Bonus Program to reward senior management for performance based on a combination of corporate or regional goals for all periods presented. The corporate and regional goals are approved on an annual basis by our board of directors as part of our routine budgeting and financial planning process. The program applies to persons who join the Company in, or are promoted to, senior management positions. In 2023, 2024, we expect to pay approximately \$14.8 million \$28.6 million under the program for the year ended December 31, 2022 December 31, 2023. In March 2022 2023 and 2021, 2022, we paid \$23.4 million \$14.5 million and \$14.1 million \$23.4 million, respectively, under the program for the years ended December 31, 2021 December 31, 2022 and 2020, 2021.

16. Income Taxes:

The significant components of the Provision for income tax expense related to continuing operations are as follows (in millions):

		For the Year Ended December 31,			For the Year Ended December 31,			
		2022	2021	2020	2023	2022	2021	
Current:	Current:							
Federal	Federal	\$ 58.7	\$ 63.7	\$29.8				
State and other	State and other	13.5	20.8	10.4				
Total current expense	Total current expense	72.2	84.5	40.2				
Deferred:	Deferred:							
Federal	Federal	17.9	14.4	23.0				
State and other	State and other	10.0	3.0	11.5				
Total deferred expense	Total deferred expense	27.9	17.4	34.5				
Total income tax expense related to continuing operations	Total income tax expense related to continuing operations	\$100.1	\$101.9	\$74.7				

A reconciliation of differences between the federal income tax at statutory rates and our actual income tax expense on our income from continuing operations, which include federal, state, and other income taxes, is presented below:

		For the Year Ended December 31,				For the Year Ended December 31,			
		2022	2021	2020		2023	2022	2021	
Tax expense at statutory rate	Tax expense at statutory rate	21.0 %	21.0 %	21.0 %	Tax expense at statutory rate	21.0 %	21.0 %	21.0 %	
Increase (decrease) in tax rate resulting from:	Increase (decrease) in tax rate resulting from:				Increase (decrease) in tax rate resulting from:				
State and other income taxes, net of federal tax benefit	State and other income taxes, net of federal tax benefit	4.0 %	4.0 %	4.4 %	State and other income taxes, net of federal tax benefit	4.1 %	4.0 %	4.0 %	

Increase (decrease) in valuation allowance	Increase (decrease) in valuation allowance	0.6 %	(0.6) %	2.2 %	Increase (decrease) in valuation allowance	0.3 %	0.6 %	(0.6) %
Noncontrolling interests	Noncontrolling interests	(4.4) %	(4.3) %	(4.9) %				
Noncontrolling interests	Noncontrolling interests				(4.0) %	(4.4) %	(4.3) %	
Share-based windfall tax benefits	Share-based windfall tax benefits							
Share-based windfall tax benefits	Share-based windfall tax benefits	— %	(0.6) %	(1.2) %	— %	— %	(0.6) %	
Other, net	Other, net	1.0 %	0.7 %	(0.3) %				
Other, net	Other, net				0.4 %	1.0 %	0.7 %	
Income tax expense	Income tax expense	22.2 %	20.2 %	21.2 %	Income tax expense	21.8 %	22.2 %	20.2 %

The *Provision for income tax expense* in 2023 and 2022 was greater than the federal statutory rate primarily due to state and other income tax expense and the a gross increase in valuation allowance, offset by the impact of noncontrolling interests. The

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Provision for income tax expense in 2021 was less than the federal statutory rate primarily due to the impact of noncontrolling interests, the decrease in valuation allowance and share-based windfall tax benefits, offset by state and other income tax expense. *The Provision for income tax expense* in 2020 was greater than the federal statutory rate primarily due to state and other income tax expense and the increase in valuation allowance, offset by the impact of noncontrolling interests and share-based windfall tax benefits. See Note 1, *Summary of Significant Accounting Policies*, "Income Taxes," for a discussion of the allocation of income or loss related to pass-through entities, which is referred to as the impact of noncontrolling interests in this discussion.

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The Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act") included provisions relating to net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, technical corrections to tax depreciation methods for qualified improvement property and deferral of employer payroll taxes. The CARES Act did not materially impact our effective tax rate for the years ended December 31, 2022, December 31, 2023, 2021, 2022, and 2020, 2021, although it has impacted the timing of cash payments for taxes.

Deferred income taxes recognize the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available NOLs. The significant components of our deferred tax assets and liabilities are presented in the following table (in millions):

	As of December 31, 2022	2021	As of December 31, 2023	2022
Deferred income tax assets:	Deferred income tax assets:		Deferred income tax assets:	

Net operating loss	Net operating loss	\$ 36.9	\$ 50.4
Insurance reserve	Insurance reserve	19.1	18.4
Insurance reserve			
Insurance reserve			
Stock-based compensation	Stock-based compensation	16.1	14.3
Revenue reserves			
Operating lease liabilities	Operating lease liabilities	6.6	6.5
Other accruals			
Other accruals			
Other accruals	Other accruals	24.8	23.0
Tax credits	Tax credits	12.4	10.9
Total deferred income tax assets	Total deferred income tax assets	115.9	123.5
Total deferred income tax assets			
Total deferred income tax assets			
Less: Valuation allowance	Less: Valuation allowance	(35.8)	(43.1)
Net deferred income tax assets	Net deferred income tax assets	80.1	80.4
Deferred income tax liabilities:	Deferred income tax liabilities:	Deferred income tax liabilities:	
Revenue reserves		—	(1.0)
Intangibles			
Intangibles			
Intangibles	Intangibles	(61.2)	(30.1)
Operating lease right-of-use assets	Operating lease right-of-use assets	(5.5)	(6.0)
Property, net	Property, net	(15.9)	(0.1)
Carrying value of partnerships	Carrying value of partnerships	(80.2)	(66.2)
Carrying value of partnerships			
Carrying value of partnerships			
Other	Other	(0.3)	(0.3)
Total deferred income tax liabilities	Total deferred income tax liabilities	(163.1)	(103.7)

Net deferred income tax liabilities	Net deferred income tax liabilities		
		\$(83.0)	\$(23.3)

We have state NOLs of ~~\$35.3 million~~ \$21.7 million that expire in various amounts at varying times through ~~2031~~ 2034. For the years ended ~~December 31, 2022~~ December 31, 2023 and ~~2021~~ 2022, the net decrease in our valuation allowance was ~~\$7.3 million~~ \$7.4 million and ~~\$3.1 million~~ \$7.3 million, respectively. The decrease in our valuation allowance in 2023 and 2022 related primarily to the expiration of state NOLs. ~~The decrease in our valuation allowance in 2021 related primarily to changes in forecasted income.~~

As of ~~December 31, 2022~~ December 31, 2023, we have a remaining valuation allowance of ~~\$35.8 million~~ \$28.4 million. This valuation allowance remains recorded primarily due to unusable foreign tax credits generated by our operations in Puerto Rico. We determined it was necessary to maintain a valuation allowance on our foreign tax credits due to uncertainties regarding related to our ability to utilize a portion of our state NOLs and other these credits before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence, as described above, including management's estimates of taxable income for each jurisdiction in which we operate over the periods in

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which the related deferred tax assets will be recoverable. ~~It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdictions, if the timing of future tax deductions differs from our expectations, or pursuant to changes in state tax laws and rates.~~

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. Interest recorded as part of our income tax provision during 2023, 2022, ~~2021~~, and ~~2020~~ 2021 was not material. Accrued interest income related to income taxes as of ~~December 31, 2022~~ December 31, 2023 and ~~2021~~ 2022 was not material.

In December 2016, we signed an agreement with the IRS to participate in their Compliance Assurance Process ("CAP") for the 2017 tax year and have renewed this agreement each year since. CAP is a program in which we and the IRS

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endeavor to agree on the treatment of significant tax positions prior to the filing of our federal income tax returns. ~~The IRS is currently examining the 2021 and 2022 tax years.~~ In June ~~2022~~ 2023, the IRS issued a no change letter effectively closing our ~~2020~~ 2021 tax year audit. ~~The~~ Thus, the statute of limitations has expired, or we have settled, federal income tax examinations with the IRS for all tax years through ~~2020~~ 2021.

The IRS is currently examining the 2022 tax year. For tax year 2023, we were accepted into CAP under the new "Bridge Phase" of the program. The Bridge Phase is essentially a suspension of IRS review of our books and records for the tax year. Per the IRS, the Bridge Phase is reserved for taxpayers whose risk of noncompliance does not support the continued use of IRS resources. Generally, these are taxpayers who have few, if any, material issues, are expected to receive a Full Acceptance Letter in their most recent CAP program phase, and continue to satisfy the CAP eligibility and suitability requirements. In February 2024, the IRS offered, and we accepted, admission into the IRS Bridge Plus Pilot program for the years 2023 and 2024. Under this program, we are required to provide additional documentation (including a draft return) to the IRS prior to filing our return. The IRS performs a risk assessment review of this documentation and provides recommendations to us. We then file our return and submit a post-filing representation that our return was filed consistent with the documentation provided and the IRS recommendations (if any). After further review, the IRS then issues either a full or partial acceptance letter. Our state income tax returns are also periodically examined by various regulatory taxing authorities. We are ~~not~~ currently under audit by ~~one state for tax years ranging from 2017 - 2019, any state.~~

For the tax years that remain open under the applicable statutes of limitations, management considered potential unrecognized tax benefits and determined there are no material unrecognized tax benefits that would impact prior years' income taxes.

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17. Earnings per Common Share:

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

		For the Year Ended December 31,			For the Year Ended December 31,		
		2022	2021	2020	2023	2022	2021
Basic:	Basic:						
Numerator:							
Numerator:							
Numerator:	Numerator:						
Income from continuing operations	Income from continuing operations	\$350.7	\$403.1	\$278.2			
Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(93.6)	(103.2)	(83.3)			
Less: Income from continuing operations allocated to participating securities	Less: Income from continuing operations allocated to participating securities	(1.1)	(1.1)	(0.5)			
Income from continuing operations attributable to Encompass Health common shareholders	Income from continuing operations attributable to Encompass Health common shareholders	256.0	298.8	194.4			
Income from discontinued operations, net of tax		15.2	114.1	90.6			
Income from continuing operations attributable to Encompass Health common shareholders							
Income from continuing operations attributable to Encompass Health common shareholders							
(Loss) income from discontinued operations, net of tax							

Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)	(1.3)	
Less: Income from discontinued operations allocated to participating securities	Less: Income from discontinued operations allocated to participating securities	(0.1)	(0.7)	(0.5)	
Income from discontinued operations attributable to Encompass Health common shareholders		13.8	111.6	88.8	
(Loss) income from discontinued operations attributable to Encompass Health common shareholders					
Net income attributable to Encompass Health common shareholders	Net income attributable to Encompass Health common shareholders	\$269.8	\$410.4	\$283.2	
Denominator:	Denominator:				Denominator:
Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	99.2	99.0	98.6	
Basic earnings per share attributable to Encompass Health common shareholders:	Basic earnings per share attributable to Encompass Health common shareholders:				Basic earnings per share attributable to Encompass Health common shareholders:
Continuing operations	Continuing operations	\$ 2.58	\$ 3.02	\$ 1.97	
Discontinued operations	Discontinued operations	0.14	1.13	0.90	
Net income	Net income	\$ 2.72	\$ 4.15	\$ 2.87	
Diluted:	Diluted:				
Diluted:					
Diluted:					
Numerator:	Numerator:				
Numerator:					
Numerator:					

Income from continuing operations				
Income from continuing operations				
Income from continuing operations	Income from continuing operations	\$350.7	\$403.1	\$278.2
Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(93.6)	(103.2)	(83.3)
Income from continuing operations attributable to Encompass Health common shareholders	Income from continuing operations attributable to Encompass Health common shareholders	257.1	299.9	194.9
Income from discontinued operations, net of tax		15.2	114.1	90.6
Income from continuing operations attributable to Encompass Health common shareholders				
Income from continuing operations attributable to Encompass Health common shareholders				
(Loss) income from discontinued operations, net of tax				
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	(1.3)	(1.8)	(1.3)
Income from discontinued operations attributable to Encompass Health common shareholders		13.9	112.3	89.3
(Loss) income from discontinued operations attributable to Encompass Health common shareholders				

Net income attributable to Encompass Health common shareholders	Net income attributable to Encompass Health common shareholders	\$271.0	\$412.2	\$284.2	
Denominator:	Denominator:				Denominator:
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	100.4	100.2	99.8	
Diluted earnings per share attributable to Encompass Health common shareholders:	Diluted earnings per share attributable to Encompass Health common shareholders:				Diluted earnings per share attributable to Encompass Health common shareholders:
Continuing operations	Continuing operations	\$ 2.56	\$ 2.99	\$ 1.96	
Discontinued operations	Discontinued operations	0.14	1.12	0.89	
Net income	Net income	\$ 2.70	\$ 4.11	\$ 2.85	

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The following table sets forth the reconciliation between basic weighted average common shares outstanding and diluted weighted average common shares outstanding (in millions):

		For the Year Ended December 31,					
		2022	2021	2020			
		For the Year Ended December 31,			For the Year Ended December 31,		
		2023	2023	2022	2023	2022	2021
Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	99.2	99.0	98.6			
Restricted stock awards, dilutive stock options, and restricted stock units	Restricted stock awards, dilutive stock options, and restricted stock units	1.2	1.2	1.2			

Restricted stock awards, dilutive stock options, and restricted stock units			
Restricted stock awards, dilutive stock options, and restricted stock units			
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	100.4	100.2 99.8

Options to purchase approximately 0.4 million 0.3 million, 0.2 million 0.4 million, and 0.2 million shares of common stock were outstanding during December 31, 2022 December 31, 2023, 2021 2022, and 2020, 2021, respectively, but were not included in the computation of diluted weighted-average shares because to do so would have been antidilutive.

In February 2014, our board of directors approved an increase in our common stock repurchase authorization from \$200 million to \$250 million. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to \$250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. On July 24, 2018, the Company's board approved resetting the aggregate common stock repurchase authorization to \$250 million. There were no repurchases of our common stock during 2023, 2022 or 2021. During 2020, we repurchased 0.1 million shares of our common stock in the open market for \$6.1 million.

In July 2019, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of \$0.28 per share. The cash dividend of \$0.28 per common share was declared and paid in each quarter through July 2022. In July 2022, our board of directors revised our quarterly dividend in response to the Spin Off and declared a cash dividend of \$0.15 per share that was paid in October 2022. Also in October 2022, our board of directors declared share. The cash dividends dividend of \$0.15 per common share that was declared and paid in each quarter through January 2023, 2024. Future dividend payments are subject to declaration by our board of directors.

18. Contingencies and Other Commitments:

We operate provide services in a the highly regulated industry in which healthcare providers are routinely subject to litigation. industry. Furthermore, operating inpatient rehabilitation hospitals requires significant staffing and involves intensive therapy for individuals suffering from significant physical or cognitive disabilities or injuries. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

The False Claims Act allows private citizens, called “relators,” to institute civil proceedings on behalf of the United States alleging violations of the False Claims Act. These lawsuits, also known as “whistleblower” or “qui tam” actions, can involve significant monetary damages, fines, attorneys’ fees and the award of bounties to the relators who successfully prosecute or bring these suits to the government. Qui tam cases are sealed at the time of filing, which means knowledge of the information contained in the complaint typically is limited to the relator, the federal government, and the presiding court. The defendant in a qui tam action may remain unaware of the existence of a sealed complaint for years. While the complaint is under seal, the government reviews the merits of the case and may conduct a broad investigation and seek discovery from the defendant and other parties before deciding whether to intervene in the case and take the lead on litigating the claims. The court lifts the seal when the government makes its decision on whether to intervene. If the government decides not to intervene, the relator may elect to continue to pursue the lawsuit individually on behalf of the government. It is possible that qui tam lawsuits have been filed against us, which suits remain under seal, or that we are unaware of such filings or precluded by existing law or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed qui tam cases brought pursuant to the False Claims Act.

It is our obligation as a participant in Medicare and other federal healthcare programs to routinely conduct audits and reviews of the accuracy of our billing systems and other regulatory compliance matters. As a result of these reviews, we have made, and will continue to make, disclosures to the HHS-OIG and CMS relating to amounts we suspect represent over-payments from these programs, whether due to inaccurate billing or otherwise. Some of these disclosures have resulted in, or may result in, Encompass Health refunding amounts to Medicare or other federal healthcare programs.

Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Other Commitments—

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are \$29.6 million in 2023, \$21.0 million \$40.3 million in 2024, \$12.5 million \$21.4 million in 2025, \$9.8 million \$20.0 million in 2026, \$9.2 million \$17.9 million in 2027, \$11.7 million in 2028, and \$9.6 million \$35.0 million thereafter. These contracts primarily relate to software licensing and support.

19. Quarterly Data (Unaudited):

The Spin Off of Enhabit was completed during 2022 and the historical results of Enhabit are now reported as discontinued operations. The quarterly results presented below have been reclassified to conform to this presentation. For additional information, see Note 2, *Spin Off of Home Health and Hospice Business*.

	2022				
	First	Second	Third	Fourth	Total
	(In Millions, Except Per Share Data)				
Net operating revenues	\$ 1,059.3	\$ 1,062.5	\$ 1,089.5	\$ 1,137.3	\$ 4,348.6
Operating earnings ^(a)	131.5	128.6	127.5	151.9	539.5
Provision for income tax expense	23.6	22.8	21.8	31.9	100.1
Income from continuing operations	86.4	59.8	85.5	119.0	350.7
Income (loss) from discontinued operations, net of tax	23.7	11.5	(18.5)	(1.5)	15.2
Net income	110.1	71.3	67.0	117.5	365.9
Less: Net income attributable to noncontrolling interests	(22.6)	(22.6)	(21.6)	(28.1)	(94.9)
Net income attributable to Encompass Health	\$ 87.5	\$ 48.7	\$ 45.4	\$ 89.4	\$ 271.0
Earnings per common share:					
Basic earnings per share attributable to Encompass Health common shareholders: ^(b)					
Continuing operations	\$ 0.65	\$ 0.38	\$ 0.64	\$ 0.91	\$ 2.58
Discontinued operations	0.23	0.11	(0.19)	(0.02)	0.14
Net income	\$ 0.88	\$ 0.49	\$ 0.45	\$ 0.89	\$ 2.72
Diluted earnings per share attributable to Encompass Health common shareholders: ^(b)					
Continuing operations	\$ 0.64	\$ 0.38	\$ 0.63	\$ 0.90	\$ 2.56
Discontinued operations	0.23	0.11	(0.18)	(0.01)	0.14
Net income	\$ 0.87	\$ 0.49	\$ 0.45	\$ 0.89	\$ 2.70

^(a) We define operating earnings as income from continuing operations attributable to Encompass Health before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense.

^(b) Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

Encompass Health Corporation and Subsidiaries

Notes to Consolidated Financial Statements

	2021				
	First	Second	Third	Fourth	Total
	(In Millions, Except Per Share Data)				
Net operating revenues	\$ 959.9	\$ 1,001.7	\$ 1,010.8	\$ 1,042.5	\$ 4,014.9
Operating earnings ^(a)	143.0	146.8	141.4	128.4	559.6
Provision for income tax expense	25.0	28.2	26.2	22.5	101.9
Income from continuing operations	101.8	107.0	102.1	92.2	403.1
Income from discontinued operations, net of tax	31.0	35.0	24.6	23.5	114.1
Net income	132.8	142.0	126.7	115.7	517.2
Less: Net income attributable to noncontrolling interests	(25.5)	(28.7)	(26.7)	(24.1)	(105.0)
Net income attributable to Encompass Health	\$ 107.3	\$ 113.3	\$ 100.0	\$ 91.6	\$ 412.2
Earnings per common share:					
Basic earnings per share attributable to Encompass Health common shareholders: ^(b)					

Continuing operations	\$	0.77	\$	0.79	\$	0.76	\$	0.69	\$	3.02
Discontinued operations		0.31		0.35		0.24		0.23		1.13
Net income	\$	1.08	\$	1.14	\$	1.00	\$	0.92	\$	4.15
Diluted earnings per share attributable to Encompass Health common shareholders: ^(b)										
Continuing operations	\$	0.76	\$	0.79	\$	0.76	\$	0.68	\$	2.99
Discontinued operations		0.31		0.34		0.24		0.23		1.12
Net income	\$	1.07	\$	1.13	\$	1.00	\$	0.91	\$	4.11

(a) We define operating earnings as income from continuing operations attributable to Encompass Health before (1) loss on early extinguishment of debt; (2) interest expense and amortization of debt discounts and fees; (3) other income; and (4) income tax expense.

(b) Per share amounts may not sum due to the weighted average common shares outstanding during each quarter compared to the weighted average common shares outstanding during the entire year.

EXHIBIT INDEX

Effective as of January 1, 2018, we changed our name to Encompass Health Corporation. By operation of law, any reference to "HealthSouth" in these exhibits should be read as "Encompass Health" as set forth in the Exhibit List below.

No.	Description
2.1.1	Separation and Distribution Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.1 to Encompass Health's Current Report on Form 8-K filed on July 7, 2022), July 7, 2022).
2.1.2	Transition Services Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.2 to Encompass Health's Current Report on Form 8-K filed on July 7, 2022).
2.1.3	Tax Matters Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.3 to Encompass Health's Current Report on Form 8-K filed on July 7, 2022).
2.1.4	Employee Matters Agreement, dated as of June 30, 2022, by and between Encompass Health Corporation and Enhabit, Inc. (incorporated by reference to Exhibit 2.4 to Encompass Health's Current Report on Form 8-K filed on July 7, 2022),).
3.1.1	Amended and Restated Certificate of Incorporation of Encompass Health Corporation, effective as of January 1, 2018 (incorporated by reference to Exhibit 3.1 to Encompass Health's Current Report on Form 8-K filed on October 25, 2017).
3.1.2	Certificate of Designations of 6.50% Series A Convertible Perpetual Preferred Stock, as filed with the Secretary of State of the State of Delaware on March 7, 2006 (incorporated by reference to Exhibit 3.1 to Encompass Health's Current Report on Form 8-K filed on March 9, 2006).
3.2	Amended and Restated Bylaws of Encompass Health Corporation, effective as of December 8, 2022 (incorporated by reference to Exhibit 3.1 to Encompass Health's Current Report on Form 8-K filed on December 13, 2022), December 13, 2022).
4.1.1	Indenture, dated as of December 1, 2009, between Encompass Health Corporation and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to Encompass Health's 5.125% Senior Notes due 2023, 5.75% Senior Notes due 2024, and 5.75% Senior Notes due 2025 outstanding senior notes (incorporated by reference to Exhibit 4.7.1 to Encompass Health's Annual Report on Form 10-K filed on February 23, 2010).
4.1.2	First Supplemental Indenture, dated December 1, 2009, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.7.2 to Encompass Health's Annual Report on Form 10-K filed on February 23, 2010).
4.1.3	Second Supplemental Indenture, dated as of October 7, 2010, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on October 12, 2010).
4.1.4	Third Supplemental Indenture, dated October 7, 2010, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.3 to Encompass Health's Current Report on Form 8-K filed on October 12, 2010).
4.1.5	Fourth Supplemental Indenture, dated September 11, 2012, among Encompass Health Corporation, the Subsidiary Guarantors (as defined therein) and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on September 11, 2012).
4.1.6	Fifth Supplemental Indenture, dated as of March 12, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on March 12, 2015).
4.1.7	Sixth Supplemental Indenture, dated as of August 7, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.4 to Encompass Health's Current Report on Form 8-K filed on August 12, 2015).

- [4.1.8](#) [Seventh Supplemental Indenture, dated as of September 16, 2015, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee and successor in interest to The Bank of Nova Scotia Trust Company of New York, relating to Encompass Health's 5.75% Senior Notes due 2025 \(incorporated by reference to Exhibit 4.2 to Encompass Health's Current Report on Form 8-K filed on September 21, 2015\).](#)
- [4.1.9](#) [Eighth Supplemental Indenture dated as of September 18, 2019, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to the 4.500% Notes due 2028 \(incorporated by referenced to Exhibit 4.2 to the Encompass Health's Current Report on Form 8-K filed on September 18, 2019\).](#)
- [4.1.10](#) [Ninth Supplemental Indenture dated as of September 18, 2019, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to the 4.750% Notes due 2030 \(incorporated by referenced to Exhibit 4.3 to the Encompass Health's Current Report on Form 8-K filed on September 18, 2019\).](#)
- [4.1.11](#) [Tenth Supplemental Indenture, dated as of October 5, 2020, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to the 4.625% Notes due 2031 \(incorporated by reference to Exhibit 4.2 to the Encompass Health's Current Report on Form 8-K filed on October 5, 2020\).](#)
- [4.1.12](#) [Eleventh Supplemental Indenture, dated as of December 15, 2021, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to the 5.75% Notes due 2025 \(incorporated by reference to Exhibit 4.3 to the Encompass Health's Current Report on Form 8-K filed on December 17, 2021\).](#)
- [4.1.13](#) [Twelfth Supplemental Indenture, dated as of January 24, 2022, among Encompass Health Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, relating to the 4.500% Notes due 2028, 4.750% Notes due 2030 and 4.625% Notes due 2031 \(incorporated by reference to Exhibit 4.5 to the Encompass Health's Current Report on Form 8-K filed on January 25, 2022\).](#)
- [4.2](#) [Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934 \(Common Stock\)\(incorporated by reference to Exhibit 4.2 to Encompass Health's Annual Report on Form 10-K filed on February 27, 2020\).](#)
- [10.1.1](#) [Encompass Health Corporation Amended and Restated 2004 Director Incentive Plan \(incorporated by reference to Exhibit 10.12.1 to Encompass Health's Annual Report on Form 10-K filed on March 29, 2006\).+](#)
- [10.1.2](#) [Form of Restricted Stock Unit Agreement \(Amended and Restated 2004 Director Incentive Plan\)\(incorporated by reference to Exhibit 10.12.2 to Encompass Health's Annual Report on Form 10-K filed on March 29, 2006\).+](#)
- [10.2](#) [Form of Indemnity Agreement entered into between Encompass Health Corporation and the directors of Encompass Health \(incorporated \(incorporated by reference to Exhibit 10.31 to Encompass Health's Annual Report on Form 10-K filed on June 27, 2005\).\).+](#)
- [10.3](#) [Encompass Health Corporation Fifth Amended and Restated Change in Control Benefits Plan.+](#)
- [10.4](#) [Description of the Encompass Health Corporation Senior Management Compensation Recoupment Policy \(incorporated by reference to Item 5, "Other Matters," in Exhibit 10.3 to Encompass Health's Quarterly Annual Report on Form 10-Q 10-K filed on November 4, 2009 February 27, 2023\).+](#)
- [10.5](#) [10.4](#) [Description of the Encompass Health Corporation Senior Management Bonus and Long-Term Incentive Plans \(incorporated by reference to the section captioned "Executive Compensation – Compensation Discussion and Analysis – Elements of Executive Compensation" in Encompass Health's Definitive Proxy Statement on Schedule 14A filed on April 4, 2022\).+](#)
- [10.6](#) [10.5](#) [Description of the annual compensation arrangement for non-employee directors of Encompass Health Corporation \(incorporated by reference to the section captioned "Corporate Governance and Board Structure – Compensation of Directors" in Encompass Health's Definitive Proxy Statement on Schedule 14A, filed on April 4, 2022\).+](#)
- [10.7](#) [10.6](#) [Encompass Health Corporation Fifth Amended and Restated Executive Severance Plan \(incorporated by reference to Exhibit 10.2 to Encompass Health's Quarterly Report on Form 10-Q filed on October 31, 2018\).+](#)
- [10.8.1](#) [10.7.1](#) [Encompass Health Corporation Nongualified Retirement Plan \(incorporated by reference to Exhibit 10.8 to Encompass Health's Annual Report on Form 10-K filed on February 27, 2020\).+](#)
- [10.8.2](#) [10.7.2](#) [First Amendment to the Encompass Health Corporation Nongualified Retirement Plan, Plan \(incorporated by reference to Exhibit 10.8.2 to Encompass Health's Annual Report on Form 10-K filed on February 27, 2023\).+](#)
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- [10.9.1](#) [10.8.1](#) [Form of Non-Qualified Stock Option Agreement \(Amended and Restated 2008 Equity Incentive Plan\)\(incorporated by reference to Exhibit 10.10.3 to Encompass Health's Annual Report on Form 10-K filed on February 22, 2017\).+](#)

10.9.2	10.8.2	Form of Restricted Stock Unit Award (Amended and Restated 2008 Equity Incentive Plan)(incorporated by reference to Exhibit 10.1.5 to Encompass Health's Quarterly Report on Form 10-Q filed on August 4, 2011).+
10.10	10.9	Encompass Health Corporation Directors' Deferred Stock Investment Plan (incorporated by reference to Exhibit 10.15 to Encompass Health's Annual Report on Form 10-K filed on February 19, 2013).+
10.11.1	10.10.1	Encompass Health Corporation 2016 Omnibus Performance Incentive Plan (incorporated by reference to Exhibit 10.1.1 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.2	10.10.2	Form of Non-Qualified Stock Option Agreement (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on December 12, 2016).+
10.11.3	10.10.3	Form of Restricted Stock Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.3 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.4	10.10.4	Form of Performance Share Unit Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.4 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.11.5	10.10.5	Form of Restricted Stock Unit Award (2016 Omnibus Performance Incentive Plan)(incorporated by reference to Exhibit 10.1.5 to Quarterly Report on Form 10-Q filed on July 29, 2016).+
10.12	10.11	Second Amended and Restated Collateral and Guarantee Agreement, dated November 25, 2019, by and among Encompass Health Corporation, certain of its subsidiaries, and Barclays Bank PLC, as collateral agent (incorporated by reference to Exhibit 10.2 to Encompass Health's Current Report on Form 8-K filed on December 2, 2019).
10.13	10.12	Sixth Amended and Restated Credit Agreement, dated October 7, 2022, by and among Encompass Health Corporation, certain of its subsidiaries, Barclays Bank PLC, as administrative agent and collateral agent, and various other lenders(incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 13, 2022), October 13, 2022).
19		Encompass Health Corporation Insider Trading Policy.
21.1		Subsidiaries of Encompass Health Corporation.
22.1		Subsidiary Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize Securities of the Registrant.
23.1		Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1		Power of Attorney (included as part of signature page).
31.1		Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1		Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2		Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97		Encompass Health Corporation Compensation Recoupment Policy.
101	Sections of the Encompass Health Corporation Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 , formatted in XBRL (eXtensible Business Reporting Language), submitted in the following files:	
	101.INS	XBRL Instance Document
	101.SCH	XBRL Taxonomy Extension Schema Document
	101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contract or compensatory plan or arrangement.

* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment. The nonpublic information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

Exhibit 10.3 19

ENCOMPASS HEALTH CORPORATION

FIFTH AMENDED AND RESTATED

CHANGE IN CONTROL

BENEFITS PLAN

INSIDER TRADING POLICY

Amended and Restated as of October 19, 2023

Purpose. This Policy sets forth the general standards for all members of the Board of Directors, officers and employees, and certain associates, consultants and contractors, of Encompass Health Corporation a Delaware corporation (the "Company"), with respect to engaging in transactions in the Company's securities, including on behalf of the Company, and securities of other publicly-traded companies. In addition, the Addendum to this Policy describes the special policies and procedures of the Company applicable to directors, executive officers, and certain designated employees regarding restrictions on trading, pre-clearance, and reporting of transactions in the Company's securities.

Company Assistance. Any person who has adopted questions regarding this Policy or its application to any proposed transaction may obtain additional guidance from the Encompass Health Corporation Fifth Amended Company's General Counsel. Ultimately, however, the responsibility for adhering to this Policy and Restated Change avoiding unlawful transactions rests with the individual. The General Counsel, or in Control Benefits Plan (the "his/her absence his/her designee in the Legal Department, shall be responsible for interpreting this Policy.

Individual Responsibility Plan. Every person subject to this Policy has the individual responsibility to comply with this Policy against insider trading. You may, from time to time, have to forego a proposed transaction in the Company's securities even if you planned to make the transaction before learning of the Material Nonpublic Information and even though you believe you may suffer an economic loss or forego anticipated profit by waiting.

A. Applicability

This Policy applies to all transactions in the Company's securities, including common stock, options for common stock and any other securities the benefit Company may issue from time to time, such as preferred stock, warrants and convertible debentures, as well as to derivative securities relating to the Company's stock, whether or not issued by the Company, such as exchange-traded options. It applies to all officers of certain Participant the Company, all members of the Company's Board of Directors, and all employees of the Company and its subsidiaries, on the terms and conditions hereinafter stated. The Plan is intended to help retain qualified employees, maintain a stable work environment and provide financial security to certain Participant employees of the Company in the event of a Change in Control. The Plan is intended to be a plan that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA. Conversely, to the maximum extent permitted by law, the Plan is not intended to provide for any "deferral of compensation," as defined in Section 409A of the Code ("Section 409A") and authoritative Department of Treasury regulations and other interpretive guidance issued thereunder (including the Proposed Treasury Regulations issued June 22, 2016, to the extent the application of such proposed regulations facilitates the administration of this Plan in

accordance with the intentions set forth in this paragraph). Instead, payments and benefits under the Plan are intended to fall within the exceptions for "short-term deferrals," as set forth in Treasury Regulations Section 1.409A-1(b)(4), and "separation pay due to involuntary separation from service or participation in a window program," as set forth in Treasury Regulations Section 1.409A-1(b)(9)(iii) and it is further intended that each Participant's benefits shall be payable only upon a Participant's "separation from service" under Treasury Regulations Section 1.409A-1(h). For purposes of Treasury Regulations Section 1.409A-2(b)(2)(iii), the right to each payment under the Plan shall be treated as the right to a separate payment. The Plan shall be administered and interpreted to the extent possible in a manner consistent with these intentions.

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01 Definitions. Capitalized terms used in the Plan shall have the following respective meanings, except as otherwise provided or as the context shall otherwise require:

"Annual Salary" shall mean the base salary paid to a Participant immediately prior to his or her Termination Date on an annual basis exclusive of any bonus payments or additional payments under any Benefit Plan.

"Award" means any grant or award of Options, Stock Appreciation Rights or any other right or interest relating to Common Stock or cash, granted to a Participant pursuant to an equity compensation plan of the Company.

"Benefit Plan" shall mean any "employee benefit plan" (including any employee benefit plan within the meaning of Section 3(3) of ERISA), program, arrangement or practice maintained, sponsored or provided by the Company, including those relating to compensation, bonuses, profit sharing, stock option, or other stock-related rights or other forms of incentive or deferred compensation, paid time-off benefits, insurance coverage (including any self-insured arrangements) health or medical benefits, Disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post employment or retirement benefits (including: compensation, pension, health, medical or life insurance, or other benefits).

"Board" shall mean the Board of Directors of the Company.

"Cause" shall have the meaning set forth in any individual employment, severance or similar agreement between the Company and a Participant, or in the event that a Participant is not a party to such an agreement, Cause shall mean:

(i) the Company's procurement of evidence of the Participant's act of fraud, misappropriation, or embezzlement with respect to the Company;

(ii) the Participant's indictment for, conviction of, or plea of guilty or no contest subsidiaries. This Policy also applies to any felony (other than a minor traffic violation);

(iii) the suspension or debarment of the Participant or vendors, consultants and contractors of the Company or any of its affiliated subsidiaries and any other person designated by the General Counsel, who in each case receive or have access to Material Nonpublic Information (as defined below) regarding the Company and to whom the Company communicates this Policy. The persons to whom this Policy applies shall be referred to herein as "Covered Persons."

B. General Policy

No Covered Person who is aware of Material Nonpublic Information regarding the Company may, directly or indirectly through a Related Person (as defined below) or other person or entity, (a) purchase or sell the Company's securities, (b) gift the Company's securities, (c) engage in any other action to take advantage of that information or (d) provide that information or recommend a trade in such securities to others, including family and friends, except as provided below.

In addition, no Covered Person may trade in the securities of any other company if aware of Material Nonpublic Information about that company which the person obtained in the course of his or her work for the Company. For example, you may not trade in the securities of other companies, such as vendors or

entities suppliers of the Company or those companies with which the Company may be negotiating a major transaction, while in possession of Material Nonpublic Information about that company. Information that is not Material Nonpublic Information with respect to the Company may still be material to these other entities.

If you are aware of Material Nonpublic Information, you must forego a transaction in the Company's securities or the securities of another company even though

- you planned the transaction before learning of the Material Nonpublic Information,
- you may lose money or a potential profit by not completing the transaction, or
- the transaction may be necessary or seem justifiable for independent reasons (including a need to raise money for a personal financial reason).

Remember that anyone scrutinizing your transactions will be doing so after the fact, with the benefit of hindsight. As a result, before engaging in any transaction you should carefully consider how your transaction may be construed by enforcement authorities and others in hindsight.

C. Certain Definitions

1. Material Nonpublic Information

(a) Material Information

Information should be regarded as material if there is a reasonable likelihood that it would be considered important to an investor in making an investment decision regarding the purchase or sale of a security or where the information is likely to have an effect on the market price of the security. Either positive OR negative information may be material. Possible material information includes, but is not limited to:

- Earnings information and quarterly results;
- Guidance on operating or financial metrics;
- Mergers, acquisitions, tender offers, significant joint ventures or changes in assets;
- New lines of business;
- Developments regarding key vendors (e.g., the acquisition or loss of a contract, significant disruptions to key services/products being provided);
- Changes in auditor or auditor notification that a company may no longer rely on an audit report;
- Events regarding a company's securities (e.g., defaults on senior securities, calls of securities for redemption, repurchase plans, stock splits or changes in dividends, changes to rights of securityholders, public or private sales of additional securities or information related to any additional funding);
- Impending bankruptcy, receivership or financial liquidity problems;
- Regulatory approvals or the impact of changes in regulations;
- Incidents with potential to significantly affect the operation or security of the Company's information systems or those of key third-party vendors;
- Developments in actual or threatened significant litigation; or
- Changes in senior management.

It can sometimes be difficult to know whether information would be considered material. When doubt exists, the information should be presumed to be material.

If you are unsure whether information of which you are aware is material, you should consult with the General Counsel.

(b) Nonpublic Information

Nonpublic information, whether or not material, is information that has not been made available to the general public. In order for information to be considered public, it must be widely disseminated in a manner making it generally available to the public, such as to the wire services through a press release or through a Securities and Exchange Commission (SEC) filing, and a sufficient period of time must have elapsed to allow the information to be fully disclosed to the general public. As a general rule, information shall not be considered fully disclosed to the general public until after the close of business on the first full trading day (generally, every day of the year other than Saturdays, Sundays and federal holidays) following the date of public disclosure of the information.

2. Related Person

A "Related Person" includes your spouse, minor children and anyone else living in your household or any family members not living in your household who are subject to your control or influence; any person or entity that you control (e.g., a partnership or a trust of which you are a trustee) and estates of which you are an executor. Since you are responsible for the transactions of any Related Person, you should make them aware of the need to confer with you before they trade in the Company's securities and should treat any such transactions as yours for purposes of this Policy.

D. Specific Policies

1. Prohibited Transactions in the Company's Securities

While you are aware of Material Nonpublic Information, neither you nor any Related Person may trade in the Company's securities. This includes a prohibition on:

- placing purchase or sell orders or recommending that another person place purchase or sell orders in the Company's securities or derivative instruments relating thereto;
- entering into a plan or arrangement to transact in the Company's securities;
- gifting the Company's securities;
- stock option exercises; and
- transactions in Company securities under the Company's deferred compensation plans and any other benefit plans adopted by the Company from time to time to the extent the transactions involve an investment decision, including elections to participate in a plan or allocate contributions to a plan's Company stock fund, changes in those contribution elections and intra-plan transfers into and out of Company stock funds.

The only exceptions to the Policy are:

- Gifting the Company's securities subject to the written condition that the transferee not sell or otherwise transfer the securities for a period of 90 days from the date of receipt of the gift.
- Award payouts by the Company to you under any equity-based compensation plans.
- Any purchase or sale of the Company's securities made pursuant to an agreement or plan that complies with SEC Rule 10b5-1; provided that (a) you are not aware of Material Nonpublic Information at the time you enter into, adopt or modify the agreement or plan and (b) the agreement or plan has been approved in advance by the General Counsel, and if you are an Insider (defined below), the agreement or plan is substantially consistent with a form of agreement or plan that has also been approved by a majority of the Nominating/Corporate Governance Committee.
- The exercise of stock options by (i) payment of cash (but not cash resulting from the sale of any shares received upon exercise, such as a **direct result** cashless exercise through a broker) or (ii) net settlement pursuant to which the Company withholds shares (or options are delivered to the Company) to satisfy the exercise price.
- The exercise of tax withholding rights pursuant to which the Company withholds shares (or options are delivered to the Company) to satisfy tax withholding requirements.
- Automatic payroll deductions, pursuant to a contribution election made when you were not aware of Material Nonpublic Information, to purchase Company common stock pursuant to Company benefit plans that may be in effect from time to time (but not the sale of any **willful or grossly negligent act or omission** shares so acquired).
- Any purchase under a dividend reinvestment plan of the **Participant** Company made with an amount constituting a dividend, pursuant to an election to participate made when you were not aware of Material Nonpublic Information (but not the sale of any shares so acquired).
- The transfer of securities to a spouse or to a revocable grantor trust.
- Any transaction specifically approved in writing in advance by the General Counsel.

Any person directing the execution of repurchases of the Company's securities on behalf of the Company must comply with the pre-clearance procedures set forth in Section I.B(c) of the Addendum hereto prior to the execution of such a repurchase or entry into a plan or arrangement to repurchase in the future; provided, the foregoing shall not prohibit any repurchase transaction under an agreement or plan adopted pursuant to the requirements of SEC Rule 10b5-1 or in connection with execution of the terms of an equity-related compensation plan, such as option net settlements, tax withholdings, and deferred compensation elections. The General Counsel or his or her **employment** designee shall pre-approve the form of any Rule 10b5-1 trading agreement or plan to be executed by the Company.

2. Other Prohibited Transactions

The Company considers it potentially improper and inappropriate for Covered Persons to engage in short-term or speculative transactions in the Company's securities. It, therefore, is the Company's policy that such individuals comply with requirements set forth in the specific provisions below:

• **Short-Term Trading.** Short-term trading of the Company's securities may be distracting and may unduly focus the investor on the Company's short-term stock market performance instead of the Company's long-term business objectives. For these reasons, Covered Persons who purchase Company securities in the open market may not sell any Company securities of the same class during the six months following the purchase (or vice versa), whether or not such person is subject to Section 16 of the Securities Exchange Act of 1934 (the "**Exchange Act**") (see below in Section II.C.2 of the Addendum hereto).

(a) **Short Sales.** Short sales of the Company's securities evidence an expectation on the part of the seller that the securities will decline in value, and therefore may signal to the market that the seller has no confidence in the Company or its short-term prospects. In addition, short sales may reduce the seller's

incentive to improve the Company's performance. For these reasons, Covered Persons are prohibited from engaging in short sales of the Company's securities as described in Section 16(c) of the Exchange Act.

(b) **Publicly-Traded Options.** A transaction in options is, in effect, a bet on the short-term movement of the Company's stock and therefore creates the appearance that a person is trading based on inside information. Transactions in options also may focus the investor's attention on short-term performance at the expense of the Company's long-term objectives. Accordingly,

transactions in puts, calls or other derivative securities, on an exchange or in any other organized market, are prohibited.

(c) **Hedging Transactions.** Certain forms of hedging or monetization transactions, such as zero-cost collars, equity swaps, exchange funds, and forward sale contracts, allow a person to lock in much of the stock holdings' value, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions allow a person to continue to own the Company's securities, but without the full risks and rewards of ownership. When that occurs, the individual may no longer have the same objectives as the Company's other shareholders. For these reasons, Covered Persons are prohibited from engaging in hedging transactions that hedge or offset, or are designed to hedge or offset, any decrease in the market value of the Company's securities.

3. Tipping

You and your Related Persons are prohibited from disclosing (tipping) Material Nonpublic Information to any other person (including family members) where that information may be used by that person for his or her profit by trading in the securities of companies (including the Company) to which the information relates. Also, you and your Related Persons may not make recommendations or express opinions concerning transactions in the Company's (or any other company's) securities on the basis of Material Nonpublic Information. These prohibitions also relate to posting or responding to any posting on or in social networking media (see the Company's Social Networking Policy) concerning nonpublic information concerning the Company.

4. Confidentiality

Unauthorized disclosure of Material Nonpublic Information could create serious problems for the Company, whether or not the information was disclosed for the purpose of conducting improper transactions in the Company's securities. You should not discuss Material Nonpublic Information with anyone outside the Company, including through the use of e-mail, social media, or the Internet (including on-line bulletin boards and chat rooms), except when properly authorized to do so. If you are uncertain about your authorization, consult with the legal department.

5. Post Termination Transactions

A former director, executive officer or employee who is no longer employed by, or affiliated with, the Company from participation but who has Material Nonpublic Information must continue to comply with the Insider Trading Policy and may not trade in Company securities until the Material Nonpublic Information in his or her possession has become public or is no longer material.

6. Transacting in Securities of Other Companies

Neither you nor any Federal Related Person may place purchase or state health care program. For purposes sell orders or recommend that another person place a purchase or sell order in the securities of another company if you become aware of Material Nonpublic Information about the other company in the course of your employment by or affiliation with the Company until two trading days following the date such Material Nonpublic Information becomes available to the general public.

E. Violations of this clause (iii), Policy – Potential Criminal and Civil Liability and/or Disciplinary Action

The Company expects strict compliance by all persons subject to the Participant shall not have acted Policy, and appropriate judgment should be exercised in connection with any transactions in the Company's securities. The consequences for violating this Policy can be severe.

1. Liability for Insider Trading

Individuals may be subject to penalties and sanctions for engaging in transactions in a "willful" manner if company's securities at a time when they have knowledge of Material Nonpublic Information, including:

- up to 20 years in jail;
- a criminal fine of up to \$5,000,000;
- a civil penalty of up to three times the Participant acted, profit gained or failed the loss avoided; and
- SEC civil enforcement injunctions.

2. Liability for Tipping

Individuals who tip others ("tipsters") may also be liable for improper transactions by the tippers to act, whom they have disclosed Material Nonpublic Information regarding the Company or to whom they have made recommendations or expressed opinions on the basis of such information as to trading in a manner that he or she believed in good faith to the Company's securities. Tippers would be in, or not opposed subject to the best interests same penalties and sanctions as tippers, and the SEC has imposed large penalties even when the tipper did not profit from the trading.

3. Control Persons

If the Company fails to take appropriate steps to prevent illegal insider trading, it may be subject to the following penalties:

- a civil penalty of up to approximately \$2,000,000 or, if greater, three times the profit gained or loss avoided as a result of an employee's violation; and
- a criminal penalty of up to \$25,000,000.

The civil penalties can also extend personal liability to the Company's directors, executive officers and other supervisory personnel if they fail to take appropriate action to prevent insider trading.

4. Company-Imposed Disciplinary Actions

Employees of the Company;

(iv) Company who violate this Policy may also be subject to disciplinary action by the Participant's admission Company, including dismissal for cause, regardless of liability of, or finding by a court or the SEC (or a similar agency of any applicable state) of liability for, the violation of any "Securities Laws" (as hereinafter defined) (excluding any technical violations of the securities laws which are not criminal in nature). As used herein, the term "securities laws" means any federal or state law, rule or regulation governing the issuance or exchange of securities, including, without limitation, the Securities Act and the Exchange Act;

(v) a formal indication from any agency or instrumentality of any state or the United States of America, including, but not limited whether such failure to the United States Department of Justice, the SEC or any committee of the United States Congress that the Participant comply is a target or the subject of any investigation or proceeding into the actions or inactions of the Participant for a violation of law.

ENCOMPASS HEALTH CORPORATION

ADDENDUM TO

INSIDER TRADING POLICY

This Addendum to the Encompass Health Insider Trading Policy applies to the following persons (who are collectively referred to as "Insiders"):

- all members of the Board of Directors,
- Executive Officers (those officers who have been notified that they are subject to the provisions of Section 16 of the Exchange Act ("Section 16"), and
- certain employees of the Company who have been separately notified by the General Counsel that these provisions apply to them or who are listed on Exhibit A, as may be amended from time to time by the General Counsel or the Nominating/Corporate Governance Committee (the "Designated Employees"). Annually, or when other significant events occur, these employees will be reviewed and individuals will be added or removed from coverage as necessary. You will be notified if there is any Securities Laws change in connection your status.

This Addendum sets forth requirements and restrictions specifically applicable to Insiders, due to their increased access to Material Nonpublic Information. This Addendum supplements the Insider Trading Policy, which is also applicable to all Insiders, and any references to compliance with his the Policy shall include this Addendum for purposes of Insiders. Please read this Addendum carefully.

I. BLACKOUT PERIODS AND PRECLEARANCE

A. Blackout Periods

(a) Quarterly Blackout Periods. The period beginning at the close of the trading window (as defined below) in each fiscal quarter and ending at the close of business on the second trading day following the final release of the Company's earnings for that quarter is a particularly sensitive period of time for transactions in the Company's securities from the perspective of compliance with applicable securities laws. This sensitivity is due to the fact that officers, directors and certain employees will, during that period, often possess Material Nonpublic Information about the expected financial results for the quarter ending during that period. Accordingly, this period of time is referred to as a "blackout period." All Insiders are prohibited from trading in the Company's securities during such period.

(b) Interim Guidance and Event-Specific Blackout Periods. In addition, from time to time Material Nonpublic Information regarding the Company may be pending, such as interim earnings guidance, entry into merger or her employment asset purchase agreements, or results of certain negotiations. Prior to public disclosure of the Material Nonpublic Information, the Company may impose a special blackout period during which Insiders and any other individuals notified

by the Company (excluding any technical violations will be prohibited from trading in the Company's securities. The existence of an event-specific blackout period will not be announced, other than to those individuals who are aware of the Material Nonpublic Information which requires the blackout.

(c) **Regulatory Blackout Periods.** Directors and executive officers are prohibited from trading in the Company's securities law during any period of three or more consecutive days during which are not criminal in nature);

(vi) the Participant's failure after reasonable prior written notice from the Company to comply with any valid and legal directive of the Chief Executive Officer or the Board that is not remedied within thirty

(30) days of the Participant being provided written notice thereof from the Company; or

(vii) other than as provided in clauses (i) through (vi) above, the Participant's breach of any material provision of any employment agreement, if applicable, or the Participant's breach of the material duties of the Participant's job that is not remedied within thirty (30) days or repeated breaches of a similar nature, such as the failure to report to work, perform duties, or follow directions, all as provided herein, which shall not require additional notices as provided in clauses (i) through (vi) above.

Cause shall be determined by the affirmative vote of at least fifty percent (50%) of the members of the Board (excluding the Participant, if a Board member, and excluding any member of the Board involved participants or beneficiaries in events leading to the Board's consideration of terminating the Participant for Cause).

"Change in Control" shall mean

(i) the acquisition (other than from the Company) by any person, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, but excluding, for this purpose, the Company or its subsidiaries, or any employee benefit an "individual account" retirement plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of either the then-outstanding shares of Common Stock or the combined voting power of (such as the Company's then-outstanding voting securities entitled Savings Plans) are unable to vote generally purchase, sell or otherwise acquire or transfer an interest in the election of directors; or

(ii) during any period of up to twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by the Board or whose nomination for election by the stockholders equity of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease to constitute at least a majority of the Board; or

(iii) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution; or

(iv) the merger or consolidation of the Company with or into another person or the merger of another person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another person, other than a transaction following which (A) in the case of a merger or consolidation transaction, holders of securities that represented one hundred percent (100%) of the combined voting power entitled to vote generally in the election of directors of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the combined voting power entitled to vote generally in the election of directors of the surviving person held in such transaction immediately after such transaction and (B) in the case of plan due to a sale of assets, each transferee is owned by holders of securities that represented at least a majority of the combined voting power entitled to vote generally in the election of directors of the Company immediately prior to such sale.

"Code" shall mean the Internal Revenue Code of 1986, as amended. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to such Section and any regulations under such Section.

"Common Stock" shall mean \$.01 par value common stock of the Company, and such other securities of the Company as may be substituted for Common Stock.

"Compensation Committee" shall mean the Compensation Committee of the Board.

"Disability" shall mean a physical or mental condition which is expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months and which renders the Participant incapable of performing the work for which he or she is employed or similar work, as evidenced by eligibility for and actual receipt of benefits payable under a group Disability plan or policy maintained temporary suspension by the Company or any of its subsidiaries that is by its terms applicable to the Participant, a fiduciary. The Company will provide

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

"Fair Market Value" means (i) as of any given date, the closing price at which the shares of Common Stock were traded (or if no transactions were reported on such date on the next preceding date on which transactions were reported) on the New York Stock Exchange on such date, or, if different, the principal exchange or automated quotation system on which such stock is traded, or (ii) should the Compensation Committee elect, the average closing price over a pre-established series of such trading days preceding or following such given date.

"Good Reason" shall mean, when used with reference to any Participant, any of the following actions or failures to act, but in each case only if it occurs while such Participant is employed by the Company and then only if it is not consented to by such Participant in writing:

(i) assignment of a position that is of a lesser rank than held by the Participant prior to the assignment and that results in a material adverse change in such Participant's reporting position, duties or responsibilities or title or elected or appointed offices as in effect immediately prior to the effective date of such change, or in the case of a Tier 1 or Tier 2 Participant who was immediately prior to the Change in Control an executive officer of the Company, such Participant ceasing to be an executive officer of a company with securities registered under the Exchange Act;

(ii) a material reduction in such Participant's total compensation from that in effect immediately prior to the Change in Control. For purposes of this clause (ii), "total compensation" shall mean the sum of base salary, target bonus opportunity and the opportunity to receive compensation in the form of equity in the Company. Notwithstanding the foregoing, a reduction will not be deemed to have occurred hereunder on account of (A) any change to a plan term other than ultimate target bonus opportunity or equity opportunity, (B) the actual payout of any bonus amount or equity amount, (C) any reduction resulting from changes in the market value of securities or other instruments paid or payable to the Participant, or (D) any reduction in the total compensation of a group of similarly situated Participants that includes such Participant; or

(iii) any change in a Participant's status as a Tier 1 Participant, Tier 2 Participant or Tier 3 Participant to a status that provides a lower benefit hereunder in the event of a Change in Control if such change in status occurs during the period beginning six (6) months prior to a Change in Control and ending twenty-four (24) months after a Change in Control; or

(iv) any change of more than fifty (50) miles in the location of the principal place of employment of such Participant immediately prior to the effective date of such change.

For purposes of this definition, none of the actions described in clauses (i) through (iv) above shall constitute "Good Reason" if taken for Cause. Additionally, none of the actions described in clauses (i) through (iv) above shall constitute "Good Reason" with respect to any Participant if remedied by the Company within thirty (30) days after receipt of written notice thereof given by such Participant (or, if the matter is not capable of remedy within thirty (30) days, then within a reasonable period of time following such thirty (30) day period, provided that the Company has commenced such remedy within said thirty (30) day period); provided that "Good Reason" shall cease to exist for any action described in clauses (i) through (iv) above on the sixtieth (60th) day following the later of the occurrence of such action or the Participant's knowledge thereof, unless such Participant has given the Company written notice thereof prior to such date. Furthermore, any benefits under the Plan resulting from the occurrence described in clause (iii) above shall be based on the status of the Participant as set forth on Schedule I hereto as of the date of such occurrence.

"Option" means a right granted pursuant to an equity compensation plan of the Company to purchase Common Stock at a specified price during specified time periods.

"Participant" shall mean an employee of the Company who is included on Schedule I hereto, as that schedule may be amended in accordance with Section 2.01.

"Plan" shall mean this Encompass Health Corporation Change in Control Benefits Plan, as amended, restated, supplemented or modified from time to time in accordance with its terms.

"Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; or

(ii) the Company or any person, entity or "group" (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act, but excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(iii) the acquisition (other than from the Company) by any person, entity or "group" (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act, but excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries

which acquires beneficial ownership of voting securities of the Company) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifteen (15%) or more of either the then-outstanding shares of Common Stock or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of Directors; or

(iv) the Board adopts a resolution to the effect that a Potential Change in Control has occurred;

provided, however, that no Potential Change in Control shall be deemed pending for purposes of the Plan if such event or condition is no longer in effect or existence or is otherwise rescinded or terminated (by means of a public filing or announcement in the case of clause (ii) above).

"Pro-rated Portion" shall mean a fraction (i) whose numerator is the number of months elapsed from the beginning of any not yet completed performance period applicable to any cash incentive award or plan through the effective date of termination of a Participant's employment in the circumstances described in Section 3.01 below, and (ii) whose denominator is the total number of months in such performance period under the applicable cash incentive award or plan. For purposes of this definition, the months elapsed will include the month in which the effective date of termination occurs if such date is the 16th, or a subsequent, day of that month.

"Stock Appreciation Right" or "SAR" means a right granted to a Participant pursuant to an equity compensation plan of the Company to receive a payment equal to the difference between the Fair Market Value of a share of Common Stock as of the date of exercise of the SAR over the grant price of the SAR.

"SEC" shall mean the United States Securities Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Successor" shall mean a successor to all or substantially all of the business, operations or assets of the Company.

"Termination Date" shall mean, with respect to any Participant, the termination date specified in the Termination Notice delivered by such Participant to the Company in accordance with Section 2.02 or as set forth in any Termination Notice delivered by the Company, or as applicable, the Participant's date of death.

"Termination Notice" shall mean, as appropriate, written notice from (a) a Participant to the Company purporting to terminate such Participant's employment for Good Reason in accordance with Section 2.02 or (b) the Company to any Participant purporting to terminate such Participant's employment for Cause or Disability in accordance with Section 2.03.

"Tier 1 Participant" shall mean each Participant designated in Schedule I hereto as a Tier 1 Participant, as that schedule may be amended in accordance with Section 2.01.

"Tier 2 Participant" shall mean each Participant designated in Schedule I hereto as a Tier 2 Participant, as that schedule may be amended in accordance with Section 2.01.

"Tier 3 Participant" shall mean each Participant designated in Schedule I hereto as a Tier 3 Participant, as that schedule may be amended in accordance with Section 2.01.

Section 1.02 Interpretation. In the Plan, unless a clear contrary intention appears, (a) the words "herein," "hereof" and "hereunder" refer to the Plan as a whole and not to any particular Article, Section or other subdivision, (b) reference to any Article or Section, means such Article or Section hereof and (c) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

ARTICLE II

ELIGIBILITY AND BENEFITS

Section 2.01 Eligible Employees.

(a) An employee of the Company shall be a "Participant" in the Plan during each calendar year (or partial calendar year) for which he or she has been designated as a Participant (and in the Tier so designated) by the Chief Executive Officer of the Company and for each succeeding calendar year he or she is employed in such position, unless the Participant is given written notice by December 31 of the preceding year of the determination of the Chief Executive Officer or the Board that such Participant shall cease to be a Participant or shall participate in a different Tier for such succeeding calendar year. Notwithstanding the foregoing, any Participant may not be removed from the Plan, nor placed in a lower tier (with Tier 1 being the highest Tier and Tier 3 being the lowest Tier), during the pendency of a Potential Change in Control or within two years following a Change in Control.

(b) The Plan is only for the benefit of Participants, and no other employees, personnel, consultants or independent contractors shall be eligible to participate in the Plan or to receive any rights or benefits hereunder.

Section 2.02 Termination Notices from Participants. For purposes of the Plan, in order for any Participant to terminate his or her employment for Good Reason, such Participant must give a Termination Notice to the Company **Regulatory Blackout Periods** in accordance with the requirements specified under the definition of Good Reason in Section 1.01, which notice shall be signed by such Participant, shall be dated the date it is given **Regulation BTR Rule 104. Limited exceptions apply to the Company, shall specify the Termination Date Regulatory Blackout Periods, and shall state that the termination is for Good Reason directors and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for such Good Reason.** Any Termination Notice given by a Participant that does not comply in all material respects **executive officers should consult with the foregoing requirements as well as the "Good Reason" definition provisions set forth in Section 1.01 shall be invalid and ineffective for purposes of the Plan.** If the Company receives from any Participant a Termination Notice that states the termination is for Good Reason and which the Company believes is invalid and ineffective as aforesaid, it shall promptly notify such Participant of such belief and the reasons therefor. Any termination of employment by the Participant that either does not constitute Good Reason or fails to meet the Termination Notice requirements set forth above shall be deemed a termination by the Participant without Good Reason.

Section 2.03 Termination Notices from Company. For purposes of the Plan, in order for the Company to terminate any Participant's employment for Cause, the Company must give a Termination Notice to such Participant, which notice shall be dated the date it is given to such Participant, shall specify the Termination Date and shall state that the termination is for Cause and shall set forth in reasonable detail the particulars thereof. For purposes of the Plan, in order for the Company to terminate any Participant's employment for Disability, the Company must give a Termination Notice to such Participant, which notice shall be dated the date it is given to such Participant, shall specify the Termination Date and shall state that the termination is for Disability and shall set forth in reasonable detail the particulars thereof. Any Termination Notice given by the Company that does not comply, in all material respects, with the foregoing requirements shall be invalid and ineffective for purposes of the Plan. Any Termination Notice purported to be given by the Company to any Participant after the death or retirement of such Participant shall be invalid and ineffective.

Section 2.04 Accelerated Vesting of Pre-2015 Equity Awards. With respect to Awards granted **General Counsel** prior to January 1, 2015, upon attempting to trade in the occurrence **Company's securities during any such period.**

(d) Trading restrictions under Quarterly Blackout Periods and Event-Specific Blackout Periods do not apply to transactions made under an approved Rule 10b5-1 trading plan, although Rule 10b5-1 trading plans may not be adopted during a Quarterly Blackout Period or Event-Specific Blackout Period.

If a blackout is imposed on you, you and your Related Persons may NOT execute transactions or enter into plans or arrangements to trade in the future.

B. Pre-Clearance of a Change in Control, notwithstanding the provisions of any Benefit Plan or agreement (except as provided in this Section 2.04): Trades and Annual Certification

(a) each outstanding option to purchase Company Common Stock (each, **Trading Window**. Generally, Insiders may conduct transactions involving the Company's securities during a period (the "**Stock Option trading window**") shall become automatically vested commencing at the open of market on the third trading day following the final release of the Company's earnings for a particular fiscal quarter and exercisable and continuing until the close of business on the first Thursday of the final month of the subsequent quarter,

(i) except in the case of those Stock Options outstanding as the earnings release for the final fiscal quarter the immediately following trading window will continue until the close of business on the second Thursday of the Effective Date, such Stock Options shall remain exercisable by such Participant until the later final month of the 15th day of subsequent quarter. This restriction on trading does not apply to transactions made under an approved Rule 10b5-1 trading plan executed in accordance with Rule 10b5-1. Management reserves the third month following right to close the date at which, trading window after it opens, or December 31 of to prevent the calendar year in which, the Stock Option would have otherwise expired, but in no event beyond the original term of such Stock Option; and

(ii) trading window from opening if, in the case judgment of all Stock Options granted to a Participant after management, the Effective Date, existence or likelihood of material nonpublic events makes such Stock Options shall remain exercisable by such Participant for a period of (x) three years in the case of a Tier 1 Participant, (y) two years in the case of a Tier 2 Participant or (z) one year in the case of a Tier 3 Participant, beyond the date at which the Stock Option would have otherwise expired, but in no event beyond the original term of such Stock Option;

(b) the vesting restrictions based upon continued employment on all other awards relating to Common Stock (including but not limited to restricted stock, restricted stock units and SARs) held by a Participant shall immediately lapse and in the case of restricted stock units and SARs shall become immediately payable, to the extent permitted by Section 409A;

(c) the vesting restrictions based upon achievement of performance criteria on any awards related to Common Stock (including but not limited to performance shares or performance share units) held by a Participant shall be deemed to have been met to the extent determined by the Compensation Committee as constituted immediately prior to the Change of Control; and

Notwithstanding the foregoing, in the event that the terms of any award under a Benefit Plan shall provide for vesting treatment of equity awards to such Participant that are more favorable than the provisions of paragraphs (a) through (c) above, the provisions of such award shall control the vesting treatment with respect to any equity awards to which such provisions are applicable. Also notwithstanding the foregoing, payments described in this Section generally shall be made immediately following the accelerated vesting date described in this Section, and in no event later than the last day of the "applicable 2½ month period," as defined in Treasury Regulations Section 1.409A-1(b)(4); provided, however, that payments of amounts described in this Section that are "deferrals of compensation" subject to Section 409A may be accelerated only to the extent such acceleration does not trigger a "plan failure" pursuant to Section 409A.

actions advisable.

Section 2.05 Accelerated Vesting of Post-2014 Equity Awards.

(a) With respect to Awards granted on or after January 1, 2015, upon the occurrence of a Change in Control, notwithstanding the provisions of any Benefit Plan or agreement (except as provided in this Section 2.05):

(i) with respect to outstanding Options and SARs:

(1) If (x)(b) It should be noted that even when the Company is the surviving entity and the Common Stock remains listed, quoted, or traded on outside of a national securities exchange or automated quotation system or (y) the surviving entity assumes such Awards or substitutes in lieu thereof stock options or stock appreciation right relating to the stock of such surviving entity having an equivalent then-current value and remaining term, provided that such stock must be listed, quoted, or traded on a national securities exchange or automated quotation system ("Substitute Options/SARs"), such Awards or the Substitute Options/SARs, as applicable, shall be governed by their respective terms;

(2) If (x)(i) blackout period, any person possessing Material Nonpublic Information concerning the Company, is should not engage in any transactions or enter into plans or arrangements to trade in the surviving entity and the Common Stock remains listed, quoted, Company's securities until such information has been known publicly for at least two full trading days, whether or traded on a national securities exchange or automated quotation system or (ii) the surviving entity assumes such Awards or issues Substitute Options/SARs and (y) the Participant is terminated without Cause or for

Good Reason within twenty-four (24) months following the date of the Change in Control, such Awards or Substitute Options/SARs, as applicable, held by the Participant that were not previously vested and exercisable shall become fully vested and exercisable effective as of the date of such termination and remain exercisable until the date that is two (2) years following the date of such termination, or the original expiration date, whichever first occurs;

(3) If (x)(i) the Company is not the surviving entity or (ii) the Common Stock has recommended a suspension of trading to that person. This restriction on trading does not remain listed, quoted, or traded on a national securities exchange or automated quotation system and (y) the surviving entity does not assume such Awards or issue Substitute Options/SARs, each such Award shall become fully vested effective as of the date of the Change in Control and promptly cancelled in exchange for a cash payment in an amount equal apply to (A) the excess of Market Value per share of the Common Stock subject to the Award over the exercise or base price (if any) per share of Common Stock subject to such Award multiplied by (B) the number of shares of Common Stock subject to such Award;

(ii) with respect to other outstanding Awards not subject to performance-based objectives (other than Options or SARs)("Time-based Awards"):

(1) if (x) the Company is the surviving entity and the Common Stock remains listed, quoted, or traded on a national securities exchange or automated quotation system or (y) the surviving entity assumes such Awards or substitutes in lieu thereof time-based awards relating to the stock of such surviving entity having an equivalent then-current value and vesting date, provided that such stock must be listed, quoted, or traded on a national securities exchange or automated quotation system ("Substitute Time-based Awards"), such Awards or the Substitute Time-based Awards, as applicable, shall be governed by their respective terms;

(2) if (x)(i) the Company is the surviving entity and the Common Stock remains listed, quoted, or traded on a national securities exchange or automated quotation system or (ii) the surviving entity assumes the such Awards or issues Substitute Time-based Awards and the Participant is terminated without Cause or for Good Reason within twenty-four (24) months following the Change in Control, such Awards or Substitute Time-based Awards, as applicable, held by the Participant that were not previously vested shall become fully vested immediately upon such termination;

(3) If (x)(i) the Company is not the surviving entity or (ii) the Common Stock does not remain listed, quoted, or traded on a national securities exchange or automated quotation system and (y) the surviving entity does not assume the such Awards or issue Substitute Time-based Awards, such Awards shall become fully vested effective as of the date of the Change in Control and promptly cancelled in exchange for a cash payment of an amount equal to the Fair Market Value per share of the Common Stock

subject to the Award immediately prior to the Change in Control multiplied by the number of shares of Common Stock subject to the Award;

(iii) with respect to Awards subject to performance-based objectives (including but not limited to performance shares or performance share units), the vesting restrictions based upon achievement of the performance-based objectives shall be deemed to have been met to the extent determined by the Compensation Committee as constituted immediately prior to the Change of Control and such achievement shall result in the deemed issuance of Time-based Awards or Substitute Time-based Awards, as applicable, with the same vesting date as provided in the original Award granted by the Company and such Awards will be subject to paragraphs (ii)(2) and (3) above, if applicable.

(b) The Compensation Committee may, in its sole discretion, provide that: (x) an Award shall, upon the occurrence of a Change in Control, be cancelled in exchange for a payment in an amount equal to (i) the Fair Market Value per share of the Common Stock subject to the Award immediately prior to the Change in Control over the exercise or base price (if any) per share of Common Stock subject to such Award multiplied by (ii) the number of shares granted under such Award; and (y) each Award shall, upon the occurrence of a Change in Control, be cancelled without payment therefore if the Fair Market Value per share of the Common Stock subject to such Award immediately prior to the Change in Control is less than the exercise or purchase price (if any) per share of Common Stock subject to such Award.

(c) Notwithstanding the foregoing, in the event that the terms of any award under a Benefit Plan shall provide for vesting treatment of equity awards to such Participant that are more favorable than the provisions of paragraphs (a) and (b) above, the provisions of such award shall control the vesting treatment with respect to any equity awards to which such provisions are applicable. Also notwithstanding the foregoing, payments described in this Section generally shall be made immediately following the accelerated vesting date described in this Section, and in no event later than the last day of the "applicable 2½ month period," as defined in Treasury Regulations Section 1.409A-1(b)(4); provided, however, that payments of amounts described in this Section that are "deferrals of compensation" subject to Section 409A may be accelerated only to the extent such acceleration does not trigger a "plan failure" pursuant to Section 409A.

ARTICLE III

SEVERANCE AND RELATED TERMINATION BENEFITS

Section 3.01 Termination of Employment. In the event that a Participant's employment is terminated within twenty-four (24) months following a Change in Control or during the pendency of a Potential Change in Control provided that a related Change in Control occurs, (x) by the Participant for Good Reason (while such Good Reason exists) or (y) by the Company without Cause (other than for Disability), then in each case, such Participant (or his or her beneficiary) shall be entitled to receive, and the Company shall be obligated to pay to the Participant, subject to Sections 3.02 through 3.04 hereof:

(a) In the case of a Tier 1 Participant:

(i) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to 2.99 times the sum of (A) the Participant's highest Annual Salary in the three years preceding the Termination Date plus (B) the average of the actual bonuses received by such Participant for the three (3) years preceding the Termination Date; plus

(ii) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to (A) the Pro-rated Portion of the Participant's target cash incentive opportunity for any not yet completed incentive performance period in which the termination occurs, plus (B) in the event of termination after a completed incentive performance period but before payment of the award earned, the amount of such cash incentive award based on actual performance; plus

(iii) a lump sum payment as soon as practicable following the Termination Date in an amount equal to (A) all unused paid time off accrued by such Participant as of the Termination Date under the Company's paid time off policy, plus (B) all accrued but unpaid

compensation, excluding any nonqualified deferred compensation, earned by such Participant as of the Termination Date to be paid by the Company ((A) and (B) together, the "Accrued Obligations") and

(iv) In addition, for a period of thirty-six months following the Termination Date, such Participant and his or her dependents shall continue to be covered by all medical, dental and vision insurance plans and programs (excluding disability) maintained by the Company under which the Participant was covered immediately prior to the Termination Date (collectively, the "Continued Benefits") at the same cost sharing between the Company and Participant as a similarly situated active employee.

(b) In the case of a Tier 2 Participant

(i) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to two times the sum of (A) the Participant's highest Annual Salary in the three years preceding the Termination Date plus (B) the average of the actual bonuses received by such Participant for the three (3) years preceding the Termination Date; plus

(ii) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to (A) the Pro-rated Portion of the Participant's target cash incentive opportunity for any not yet completed incentive performance period in which the termination occurs, plus (B) in the event of termination after a completed incentive performance period but before payment of the award earned, the amount of such cash incentive award based on actual performance; plus

(iii) a lump sum payment as soon as practicable following the Termination Date in an amount equal to all Accrued Obligations as soon as practicable following the Termination Date; and

(iv) In addition, for a period of twenty-four months following the Termination Date, such Participant and his or her dependents shall receive

Continued Benefits at the same cost sharing between the Company and Participant as a similarly situated active employee.

(c) In the case of a Tier 3 Participant

(i) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to the sum of (A) the Participant's highest Annual Salary in the three years preceding the Termination Date plus (B) the average of the actual bonuses received by such Participant for the three (3) years preceding the Termination Date; plus

(ii) a lump sum payment within sixty (60) days following the later of such Participant's Termination Date or the date of the Change in Control in an amount equal to (A) the Pro-rated Portion of the Participant's target cash incentive opportunity for any not yet completed incentive performance period in which the termination occurs, plus (B) in the event of termination after a completed incentive performance period but before payment of the award earned, the amount of such cash incentive award based on actual performance; plus

(iii) a lump sum payment as soon as practicable following the Termination Date in an amount equal to all Accrued Obligations as soon as practicable following the Termination Date; and

(iv) In addition, for a period of twelve months following the Termination Date, such Participant and his or her dependents shall receive Continued Benefits at the same cost sharing between the Company and Participant as a similarly situated active employee.

(d) Notwithstanding anything herein to the contrary, in the event that a Participant is deemed to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, the lump sum severance payment, together with interest at an annual rate (compounded monthly) equal to the federal short-term rate (as in effect under Section 1274(d) of the Code on the Termination Date) shall be paid, to the extent required by Section 409A, to such Participant immediately following the six-month anniversary of the Termination Date and no later than thirty (30) days following such anniversary. In any event, all Accrued Obligations shall be paid to the Participant no later than sixty (60) days following the Termination Date.

(e) The cost of the Continued Benefits paid by the Company will be imputed as wage income to the Participant to the extent required to comply with Sections 409A and 105(h) of the Code.

Section 3.02 Golden Parachute Tax.

(a) Anything in the Plan to the contrary notwithstanding, in the event it shall be determined that any payment or distribution to or for the benefit of any Participant or the acceleration thereof (the "Triggering Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (collectively, such excise tax, together with any such interest or penalties, the "Excise Tax") (all such payments and benefits, including any cash severance payments payable pursuant to any other plan, arrangement or agreement,

hereinafter referred to as the “*Total Payments*”), then, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such

other plan, arrangement or agreement, the cash severance payments shall first be reduced, and the noncash severance payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax but only if (A) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments) is greater than or equal to (B) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which the Participant would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments). For purposes of determining whether a portion of the Total Payments would be subject to the Excise Tax, the value of the Participant’s non-competition covenant contained in the Release Agreement (defined below in Section 3.03) shall be determined through independent appraisal by the independent accounting firm described in subsection (b), and a corresponding portion of the amount payable pursuant to Section 3.01 shall be allocated as reasonable compensation for the Participant’s non-competition covenant and therefore exempt from the definition of the term “parachute payment” within the meaning of Sections 280G and 4999 of the Code.

(b) All determinations required to be *transactions* made under this Section 3.02 with respect to a particular Participant shall be made in writing within ten (10) business days of the receipt of notice from the Participant that there has been a Triggering Payment (or at such earlier time as is requested by the Company and the Participant) by the independent accounting firm then retained by the Company in the ordinary course of business (which firm shall provide detailed supporting calculations to the Company and such Participant) and such determinations shall be final and binding on the Company (including the Compensation Committee) and all Participants. Any fees incurred as a result of work performed by any independent accounting firm pursuant to this Section 3.02 shall be paid by the Company.

Section 3.03 Condition to Receipt of Severance Benefits. As a condition to receipt of any payment or benefits under this Article III, such Participant must enter into a restrictive covenant (non-solicitation, non-compete, non-disclosure, non-disparagement) and release agreement (a “*Release Agreement*”) with the Company and its affiliates substantially in the form attached hereto as *Exhibit A*. The Participant must execute and deliver a Release Agreement, and such Release Agreement must become effective and irrevocable *an approved Rule 10b5-1 trading plan executed in accordance with its terms, no later than sixty (60) days following such Participant’s Termination Date. If this requirement is not satisfied, Rule 10b5-1. Trading in the Participant shall forfeit the right to Company’s securities outside of a blackout period should not be considered a “safe harbor,” and all benefits, except for the Accrued Obligations directors, officers and the Continued Benefits as provided, described in this Article III. In the event such Participant’s receipt of any or other persons should use good judgment at all of the payment or benefits under this Article III is subject to Section 409A and such 60-day period extends into a new calendar year, the Company shall deliver such portion of the payments and benefits to the Participant on the later of the first business day of that new year or the effective date of such Release Agreement. times.*

Section 3.04 (c) Limitation Pre-Clearance of Benefits.

(a) Anything in the Plan to the contrary notwithstanding, the Company’s obligation to provide the Continued Benefits shall cease if *Trades* and when the Participant becomes employed by a third party that provides such Participant with substantially comparable health and welfare benefits.

(b) Any amounts payable under the Plan shall be in lieu of and not in addition to any other severance or termination payment under any other plan or agreement with the Company. Without limiting the generality of the foregoing, in the event that a Participant becomes entitled to any payment under the Plan, such Participant shall not be entitled to receive any payment under the Company’s Executive Severance Plan. As a condition to receipt of any payment under the Plan, the Participant shall waive any entitlement to any other severance or termination payment by the Company.

Section 3.05 Plan Unfunded; Participant’s Rights Unsecured Trading Plans. The Company shall not be required *has determined that all Insiders must refrain from trading, or entering into a plan or arrangement to establish any special trade in the future (whether pursuant to a 10b5-1 trading plan or separate fund other trading plan or make any other segregation of funds arrangement), in the Company’s securities, even during the trading window between blackout periods, without first complying with the Company’s “pre-clearance” process. Each such person should contact the Company’s General Counsel, or, assets to assure in his/her absence, his/her designee in the payment Legal Department or the Chief Financial Officer and provide all trade details requested in advance of any benefit hereunder. proposed transactions (including gifts, loans, contributions or other transfers) in the Company’s securities. The right of any Participant to receive Company’s General Counsel shall request pre-clearance from the benefits provided Chief Executive Officer in consultation with counsel. The person requesting pre-clearance is responsible for herein shall be an unsecured obligation against the general assets of the Company.*

ARTICLE IV

DISPUTE RESOLUTION

Section 4.01 Claims Procedure.

(a) It shall not be necessary for a Participant who has become entitled to receive a benefit hereunder to file a claim for such benefit with any person as a condition precedent to receiving a distribution of such benefit. However, any Participant or beneficiary who believes that he or she has become entitled to a benefit hereunder and who has not received, or commenced receiving, a distribution of such benefit, or who believes confirming that he or she is entitled not aware of Material Nonpublic Information at that time. The General Counsel will consult as necessary with senior management of the Company before clearing any proposed trade. A trade will not be considered pre-cleared unless the pre-clearance received by the Insider is in written, including via electronic mail, form. Pre-clearance of a transaction is valid only for a 48-hour period. If the transaction order is not placed within that 48-hour period, pre-clearance of the transaction must be re-requested. If pre-clearance is denied, the fact of such denial must be kept confidential by the person requesting such pre-clearance. Although an Insider who is transacting in the Company's securities pursuant to a benefit hereunder in excess previously approved Rule 10b5-1 trading plan need not seek pre-clearance from the Company's General Counsel before each trade takes place, such an Insider must obtain approval of the benefit which he or she has received, or commenced receiving, Nominating/Corporate Governance Committee and the General Counsel for the proposed Rule 10b5-1 trading plan and pre-clear the adoption of it pursuant to this paragraph. Rule 10b5-1 trading

plans may file not be adopted during a written claim for such benefit blackout period and may only be adopted at a time the Insider adopting the plan is not aware of Material Nonpublic Information.

(d) Annual Certification. To ensure compliance with the Compensation Committee no later than ninety (90) days following Insider Trading Policy and this Addendum, all Insiders are required to execute and deliver an annual statement to the date on which he or she allegedly became entitled Company's General Counsel, certifying their understanding of and intent to receive comply with the Insider Trading Policy and this Addendum. The General Counsel will notify you when such certification is due.

C. Additional Prohibited Transactions

Directors and Executive Officers are prohibited from engaging in and, unless approved in advance by a distribution of such benefit. Such written claim shall set forth the Participant's or beneficiary's name and address and a statement majority of the facts and a reference to the pertinent provisions of the Plan upon which such claim is based. The Compensation Committee shall, within ninety (90) days after such written claim is filed, provide the claimant with written notice of its decision with respect to such claim. If such claim is denied in whole or in part, the Compensation Committee shall, in such written notice to the claimant, set forth in a manner calculated to be understood by the claimant the specific reason or reasons for denial; specific references to pertinent provisions of the Plan upon which the denial is based; a description of any additional material or information necessary for the claimant to perfect his or her claim and an explanation of why such material or information is necessary; and an explanation of the provisions for review of claims set forth in Section 4.01(b) below.

(b) A Participant or beneficiary who has filed a written claim for benefits with the Compensation Committee which has been denied may appeal such denial to the Compensation Committee and receive a full and fair review of his or her claim by filing with the Compensation Committee a written application for review at any time within sixty (60) days after receipt from the Compensation Nominating/Corporate Governance Committee of the written notice of denial of his or her claim provided for Company, other Designated Employees may not engage in Section 4.01(a) above. A Participant or beneficiary who submits a timely written application for review shall be entitled to review any transactions involving margin accounts and all documents pertinent to his or her claim and may submit issues and comments to the Compensation Committee in writing. Not later than sixty (60) days after receipt of a written application for review, the Compensation Committee shall give the claimant written notice of its decision on review, which written notice shall set forth in a manner calculated to be understood by the claimant specific reasons for its decision and specific references to the pertinent provisions pledges of the Plan upon which the decision is based. In the event the claimant disputes the decision Company's securities. Margin accounts and pledges can be problematic because sales of the Compensation Committee, securities being used as collateral can occur without the claimant may pledgor's knowledge at a time when the pledgor is aware of Material Nonpublic Information or otherwise is not bring suit permitted to trade in court with respect Company securities, which could lead to such dispute under negative publicity for the Plan later than one hundred eighty (180) days after receiving the Compensation Committee's written notice of its decision.

(c) Any act permitted or required to be taken by a Participant or beneficiary under this Section 4.01 may be taken for and on behalf of such Participant or beneficiary by such Participant's or beneficiary's duly authorized representative. Any claim, notice, application or other writing permitted or required to be filed with or given to a party by this Article shall be deemed to have been filed or given when deposited Company in the U.S. mail, postage prepaid, and properly addressed to the party to whom it is to be given or with whom it is to be filed. Any such claim, notice, application, or other writing deemed filed or given pursuant to the next foregoing sentence shall in the absence case of clear and convincing evidence to the contrary, be deemed to have been received on the fifth (5th) business day following the date upon which it was filed or given. Any such notice, application, or other writing directed to a Participant or beneficiary shall be deemed properly addressed if directed to the address set forth in the written claim filed by such Participant or beneficiary. Section 16 Persons.

ARTICLE V

Miscellaneous ProvisionsII. SECTION 16 AND RULE 144 REPORTING

Section 5.01 **Cumulative Benefits.** Except as provided in Section 3.04, the rights and benefits provided to any Participant under the Plan are in addition to and shall not be a replacement **16 requires members** of all of the other rights and benefits provided to such Participant under any Benefit Plan or any agreement between such Participant and the Company except for any severance or termination benefits.

Section 5.02 **No Mitigation.** No Participant shall be required to mitigate the amount of any payment provided for in the Plan by seeking or accepting other employment following a termination of his or her employment with the Company or otherwise. Except as otherwise provided in Section 3.04, the amount of any payment provided for in the Plan shall not be reduced by any compensation or benefit earned by a Participant as the result of employment by another employer or by retirement benefits. The Company's obligations to make payments to any Participant required under the Plan shall not be affected by any set off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against such Participant.

Section 5.03 **Amendment or Termination.** The Board may amend or terminate the Plan at any time; provided, however, that the Plan may not be amended or terminated during the pendency of a Potential Change in Control or within two (2) years following a Change in Control. Notwithstanding the foregoing, nothing herein shall abridge the authority of the Compensation Committee to designate a new Participant or a new participation Tier for a current Participant or to determine that a Participant shall no longer be entitled to participate in the Plan in accordance with Section 2.01(a) hereof. The Plan shall terminate when all of the obligations to Participants hereunder have been satisfied in full.

To the extent payments and benefits under the Plan remain subject to Section 409A, payments and benefits under the Plan are intended to comply with Section 409A, and all provisions of the Plan and Notice of Participation shall be interpreted in accordance with Section 409A and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the adoption or amendment of the Plan (and including the Proposed Treasury Regulations issued June 22, 2016, to the extent the application of such proposed regulations facilitates the administration of this Plan in accordance with the intentions set forth in this paragraph). The Plan shall be interpreted and administered, to the extent possible, in accordance with these intentions. Notwithstanding any provision of the Plan to the contrary, in the event that the Board determines that any payments or benefits may or do not comply with Section 409A, the Board may adopt such amendments to the Plan (without Participant consent) or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (i) exempt the Plan and any payments or benefits thereunder from the application of Section 409A, or (ii) comply with the requirements of Section 409A.

Section 5.04 **Enforceability.** The failure of Participants or the Company to insist upon strict adherence to any term of the Plan on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of the Plan.

Section 5.05 **Administration.**

(a) The Compensation Committee shall have full and final authority, subject to the express provisions of the Plan, with respect to designation of Participants and administration of the Plan, including but not limited to, the authority to construe and interpret any provisions of the Plan and to take all other actions deemed necessary or advisable for the proper administration of the Plan.

(b) The Company shall indemnify and hold harmless each member of the Compensation Committee and any other employee of the Company that acts at the direction of the Compensation Committee against any and all expenses and liabilities arising out of his or her administrative functions or fiduciary responsibilities, including any expenses and liabilities that are caused by or result from an act or omission constituting the negligence of such member in the performance of such functions or responsibilities, but excluding expenses and liabilities that are caused by or result from such member's or employee's own gross negligence or willful cause. Expenses against which such member or employee shall be indemnified hereunder shall include, without limitation, the amounts of any settlement or judgment, costs, counsel fees, and related charges reasonably incurred in connection with a claim asserted or a proceeding brought or settlement thereof.

Section 5.06 **Consolidations, Mergers, Etc.** In the event of a merger, consolidation or other transaction, nothing herein shall relieve the Company from any of the obligations set forth in the Plan; provided, however, that nothing in this Section 5.06 shall prevent an acquirer of or Successor to the Company from assuming the obligations, or any portion thereof, of the Company hereunder pursuant to the terms of the Plan provided that such acquirer or Successor provides adequate assurances of its ability to meet this obligation. In the event that an acquirer of or Successor to the Company agrees to perform the Company's obligations, or any portion thereof, hereunder, the Company shall require any person, firm or entity which becomes its Successor to expressly assume and agree to perform such obligations in writing, in the same manner and to the same

extent that the Company would be required to perform hereunder if no such succession had taken place.

Section 5.07 **Successors and Assigns.** The Plan shall be binding upon and inure to the benefit of the Company and its Successors and assigns. The Plan and all rights of each Participant shall inure to the benefit of and be enforceable by such Participant and his or her personal or legal

representatives, executors, administrators, heirs and permitted assigns. If any Participant should die while any amounts are due and payable to such Participant hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of the Plan to such Participant's devisees, legatees or other designees or, if there be no such devisees, legatees or other designees, to such Participant's estate. In the event of the death of any Participant during the applicable period of eligibility for the Continued Benefits set forth in Section 3.01, dependents of such Participant shall be eligible during such period to continue participation in any Continued Benefits in which the Participant was enrolled at the time of death. No payments, benefits or rights arising under the Plan may be assigned or pledged by any Participant, except under the laws of descent and distribution.

Section 5.08 Notices. All notices and other communications provided for in the Plan shall be in writing and shall be sent, delivered or mailed, addressed as follows: (a) if to the Company, at the Company's principal office address or such other address as the Company may have designated by written notice to all Participants for purposes hereof, directed to the attention of the General Counsel, and (b) if to any Participant, at his or her residence address on the records of the Company or to such other address as he or she may have designated to the Company in writing for purposes hereof. Each such notice or other communication shall be deemed to have been duly given or mailed by United States certified or registered mail, return receipt requested, postage prepaid, except that any change of notice address shall be effective only upon receipt.

Section 5.09 Tax Withholding. The Company shall have the right to deduct from any payment hereunder all taxes (federal, state or other) which it is required to be withhold therefrom.

Section 5.10 No Employment Rights Conferred. The Plan shall not be deemed to create a contract of employment between any Participant and the Company and/or its affiliates. Nothing contained in the Plan shall (i) confer upon any Participant any right with respect to continuation of employment with the Company or (ii) subject to the rights and benefits of any Participant hereunder, interfere in any way with the right of the Company to terminate such Participant's employment at any time.

Section 5.11 Entire Plan. The Plan contains the entire understanding of the Participants and the Company with respect to Change in Control severance arrangements maintained on behalf of the Participants by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the Participants and the Company with respect to the subject matter herein other than those expressly set forth herein.

Section 5.12 Prior Agreements. The Plan supersedes all prior agreements, programs and understandings (including verbal agreements and understandings) between the Participants and the Company regarding the terms and conditions of Participant's severance arrangements in the event of a Change in Control.

Section 5.13 Severability. If any provision of the Plan is, becomes or is deemed to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of the Plan shall not be affected thereby.

Section 5.14 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its conflict of laws rules, and applicable federal law.

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SCHEDULE I

Tier 1 Participants

President and Chief Executive Officer

Douglas E. Cotharp, Executive Vice President and Chief Financial Officer [grandfathered]

Patrick Darby, Executive Vice President, General Counsel and Secretary [grandfathered]

Tier 2 Participants

Executive Vice Presidents and equivalent offices, including Chief Financial Officer and General Counsel

Regional Presidents

Chief Accounting Officer

Chief Human Resources Officer

Chief Information Officer

Chief Medical Officer

Treasurer

Tier 3 Participants

Chief Strategy & Development Officer

Chief Compliance Officer

Chief Investor Relations Officer

Deputy General Counsel

SVP, Financial Operations

SVP, Public Policy, Legislation & Regulations

SVP, Reimbursement

Exhibit A

RESTRICTED COVENANT AND RELEASE AGREEMENT

This Release Agreement (this “Agreement”) is entered into between _____ (“Executive”) and Encompass Health Corporation (the “Company”), pursuant to the terms and conditions of the Encompass Health Corporation Fifth Amended and Restated Change in Control Benefits Plan, which is attached hereto as Exhibit A (the “Plan”).

WITNESSETH

WHEREAS, Executive is employed by the Company as _____ and is a “Participant” in the Plan (as such term is defined in the Plan);

WHEREAS, Executive's last day of employment with the Company will be _____, _____, and such date shall be the “Termination Date” for purposes of this Agreement and the Plan;

WHEREAS, Executive is eligible to receive benefits under Section 3.01 of the Plan, subject to the terms and conditions of the Plan, including, but not limited to, Executive's execution and delivery to the Company of this Agreement and it becoming effective;

WHEREAS, Executive has agreed to comply with, among other things, certain confidentiality, noncompetition and nonsolicitation provisions, which are provided below, and such provisions shall be fully enforceable by the Company; and

WHEREAS, Executive and the Company wish to settle, fully and finally, all matters between them under the terms and conditions exclusively set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is mutually acknowledged, the Company and Executive agree as follows:

1. Benefits under the Plan. Provided that this Agreement becomes effective pursuant to Paragraph 4 of this Agreement:

(a) The Company shall pay the amount listed on Line 1 of Exhibit B attached hereto, subject to all applicable federal, state and local withholdings, in accordance with the terms and conditions of the Plan, paid out in a lump sum within sixty (60) days of the Termination Date. In the event any of such payment is subject to Section 409A and such 60-day period extends into a new calendar year, the Company shall deliver such payment to the Participant on the later of the first business day of that new year or the effective date of this Agreement.

(b) Executive will continue to be eligible to participate in the Company sponsored group healthcare benefits, (excluding disability insurance but specifically including medical, dental and vision plans), under which the Executive was covered immediately prior to the Termination Date, for the number of months listed on Line 2 of Exhibit B attached hereto, after the Termination Date (the “Severance Period”), provided that Executive continues to contribute toward the premiums at the level of an active employee of the Company. Thereafter, Executive's right to continue coverage under the Company sponsored group healthcare plan at Executive's own expense, pursuant to the statutory scheme commonly known as “COBRA,” shall be governed by applicable law and the terms of the plans and programs, and will be explained to Executive in a packet to be sent to Executive under separate cover.

(c) Executive acknowledges and agrees that the severance payments and benefits provided in subsection (a) and (b) of Section 1 are subject to forfeiture and repayment and any awards relating to Common Stock shall be cancellable and/or forfeitable in the event of a material violation by Executive of Sections 6, 7, and/or 8 of this Agreement

2. Release.

(a) Executive, on behalf of Executive, Executive's heirs, executors, administrators, successors and assigns, hereby irrevocably and unconditionally releases the Company and its subsidiaries, divisions and affiliates, together with their respective owners, assigns, agents, directors, partners, officers, trustees, members, managers, employees, insurers, employee benefit programs (including, but not limited to, trustees, administrators, fiduciaries, and insurers of such programs), attorneys and representatives and any of their predecessors and successors and each of their estates, heirs and assigns (collectively, the "Company Releases") from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, causes of action, rights, costs, losses, debts and expenses of any nature whatsoever, known or unknown, which Executive or Executive's heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, will or may have (either directly, indirectly, derivatively or in any other representative capacity) by reason of any matter, fact or cause whatsoever against the Company or any of the other Company Releases from the beginning of time to the date upon which Executive signs this Agreement, including, but not limited to, any claims arising out of or relating to Executive's employment with the Company and/or termination of employment from the Company. This release includes, without limitation, all claims arising out of, or relating to, Executive's employment with the Company and the termination of Executive's employment with the Company, including all claims for severance or termination benefits under Executive's employment agreement with the Company, if any, and under any plan, policy or agreement (other than those benefits expressly payable hereunder) and all claims arising under any foreign, federal, state and local labor, laws including, without limitation, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act of 1974, the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964, the Family and Medical Leave Act, the Civil Rights Act of 1991, the Fair Labor Standards Act, the Equal Pay Act, the Immigration and Reform Control Act, the Uniform Services Employment and Re-Employment Act, the Rehabilitation Act of 1973, Sarbanes-Oxley Act, Executive Order 11246, the Lilly Ledbetter Fair Pay Act, the False Claims Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Alabama Age Discrimination Statute and the Workers' Adjustment and Retraining Notification Act (and any similar state or local law), each as amended.

(b) Nothing in this Paragraph 2 shall be deemed to release (i) Executive's right to enforce the terms of this Agreement; (ii) Executive's rights, if any, to any vested benefits or options under any incentive, bonus, or other benefit plan maintained by the Company; (iii) any right to indemnification under the Company's Restated Certificate of Incorporation or its Amended and Restated By Laws; or (iv) any claim that cannot be waived under applicable law. Nothing in this Agreement prevents Executive from initiating a complaint with or participating in any legally authorized investigation or proceeding conducted by the Equal Employment Opportunity Commission or any federal, state, or local law enforcement agency. Notwithstanding the foregoing, Executive agrees that Executive is waiving all rights to damages and all other forms of recovery arising out of any charge, complaint or lawsuit filed on behalf of Executive or any third party as to all claims waived in this Agreement.

(c) Executive acknowledges and agrees that the Company has fully satisfied any and all obligations owed to Executive arising out of Executive's employment with the Company, and no further sums are owed to Executive by the Company or by any of the other Company Releases at any time. Executive further acknowledges and agrees that the Company has paid Executive for all earned wages and accrued but unused paid time off through the Termination Date. By entering into this Agreement, Executive explicitly waives any rights to severance or other post-termination benefits under any oral or written plan, policy, employment agreement, contract or arrangement with the Company, other than as provided in this Agreement. Executive acknowledges and agrees that, in the absence of this Agreement, the Company has no obligation to provide any of the consideration set forth in Paragraph 1 of this Agreement. Executive further acknowledges and agrees that Executive has no rights to any unvested benefits or options under any incentive, bonus or other benefit plan, except as otherwise provided in the Plan; and that all such vesting shall cease as of the Termination Date. Executive further acknowledges and agrees that any right to continue to contribute to the Company's 401(k) plan for employees ended on the Termination Date. Furthermore, Executive acknowledges and agrees that the payments and benefits provided under Paragraph 1 of this Agreement shall not be included in any computation of earnings under the Company's 401(k) plan or any other plan.

(d) Executive represents that Executive has no lawsuits pending against the Company or any of the other Company Releases. Executive further covenants and agrees that neither Executive nor Executive's heirs, executors, administrators, successors or assigns will be entitled to any personal recovery in any(e) proceeding of any nature whatsoever against the Company or any of the other Company Releases arising out of any of the matters released in Paragraph 2.

3. Consultation with Attorney/Voluntary Agreement. Executive acknowledges that (a) the Company is hereby advising Executive of Executive's right to consult with an attorney of Executive's own choosing prior to executing this Agreement, (b) Executive has carefully read and fully understands all of the provisions of this Agreement, and (c) Executive is entering into this Agreement, including the releases set forth in Paragraph 2 above, knowingly, freely and voluntarily in exchange for good and valuable consideration, including the obligations of the Company under this Agreement.

4. Consideration & Revocation Period.

(a) Executive acknowledges that Executive has been given at least twenty-one (21) calendar days following receipt of this Agreement to consider the terms of this Agreement, although Executive may execute it sooner.

(b) Executive will have seven (7) calendar days from the date on which Executive signs this Agreement to revoke Executive's consent to the terms of this Agreement. Such revocation must be in writing and must be addressed and sent via facsimile as follows: Encompass Health Corporation, Attention: General Counsel, facsimile: (205) 262-8692. Notice of such revocation must be received within the seven (7) calendar days referenced above. In the event of such revocation by Executive, this Agreement shall not become effective and Executive shall not have any rights under this Agreement or the Plan.

(c) Provided that Executive does not revoke this Agreement, this Agreement shall become effective on the eighth calendar day after the date on which Executive signs this Agreement (the "Effective Date").

5. Acknowledgements.

(a) Executive acknowledges and agrees that: (i) the "Company Business" (as defined in Paragraph 9(a) below) is intensely competitive and that Executive's employment by the Company required Executive to have access to, and knowledge of, "Confidential Information" (as defined in Paragraph 9(b) below); (ii) the use or disclosure of any Confidential Information could place the Company at a serious competitive disadvantage and could do serious damage, financial and otherwise, to the Company; (iii) Executive was given access to, and developed relationships with, employees, clients, patients, physicians and partners of the Company at the time and expense of the Company; and (iv) by Executive's training, experience and expertise, Executive's services to the Company were extraordinary, special and unique, and the Company invested in training and enhancing Executive's skill and experience in the Company Business.

(b) Executive further acknowledges and agrees that (i) Executive's experience and capabilities are such that the provisions contained in Paragraphs 6, 7, and 8 will not prevent Executive from earning a livelihood; (ii) the Company would be seriously and irreparably injured if Executive were to engage in "Competitive Activities" (as defined below), or to otherwise breach the obligations contained in Paragraphs 6, 7 and 8, no adequate remedy at-law would exist and damages would be difficult to determine; (iii) the provisions contained in Paragraphs 6, 7 and 8 are justified by and reasonably necessary to protect the legitimate business interests of the Company, including the Confidential Information and good will of the Company; and (iv) the provisions in Paragraphs 6, 7 and 8 are fair and reasonable in scope, duration and geographical limitations. Accordingly, Executive agrees to be bound fully by the restrictive covenants in this Agreement to the maximum extent permitted by law, it being the intent and spirit of the parties that the restrictive covenants and the other agreements contained herein shall be valid and enforceable in all respects.

6. Confidentiality.

(a) Executive acknowledges and agrees that, from and after the Termination Date, and at all times thereafter, Executive will not communicate, divulge or disclose to any "Person" (as defined in Paragraph 9(c) below) or use for Executive's own benefit or purpose any Confidential Information of the Company, except as required by law or court order or expressly authorized in writing by the Company; provided, however, that Executive shall promptly notify the Company prior to making any disclosure required by law or court order so that the Company may seek a protective order or other appropriate remedy.

7. Covenant Not to Compete.

From the Termination Date through the end of the Severance Period (the "Noncompetition Period"), Executive shall not, directly or indirectly, participate in the management, operation or control of, or have any financial or ownership interest in, or aid or knowingly assist anyone else in the conduct of, any business or entity that (i) engages in the Company Business in any Restricted Territory (as defined in Paragraph 9(d) below), or (ii) is, to Executive's knowledge, making preparations for engaging in the Company Business in any Restricted Territory (collectively, "Competitive Activity"); provided, however, that (x) the "beneficial ownership" by Executive, either individually or as a member of a "group" (as such terms are used in Rule 13d of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended), of not more than one percent (1%) of the voting stock of any publicly held corporation shall not alone constitute a breach of this Paragraph 7 and (y) Executive may enter into, at arm's length, any bona fide joint venture (or partnership or other business arrangement) with any Person who is not directly engaged in the Company Business but which is an affiliate of another Person engaged in the Company Business.

8. Employee Nonsolicitation; Nondisparagement.

(a) Executive shall not, directly or indirectly, within the Noncompetition Period, without the prior written consent of the Company, solicit or direct any other Person to solicit any officer or other employee of the Company to: (i) terminate such officer's or employee's employment with the Company; or (ii) seek or accept employment or other affiliation with Executive or any Person engaged in any Competitive Activity in which Executive is directly or indirectly involved (other than, in each case, any solicitation directed at the public in general in publications available to the public in general or any contact which Executive can demonstrate was initiated by such officer, director or employee or any contact after such officer's or employee's employment with the Company is terminated). Executive's obligations under this Paragraph 8(a) with respect to new Company employees hired after the Termination Date shall be subject to the condition that Executive shall have been notified of such new employees.

(b) Executive shall not, directly or indirectly, within the Noncompetition Period, without the prior written consent of the Company, solicit or direct any other Person to solicit any Person or entity in a business relationship with the Company (whether an independent contractor, joint venture partner or otherwise) to terminated such Person or entity's business relationship with the Company.

(c) Executive shall not, directly or indirectly, within the Noncompetition Period, make any statements or comments of a defamatory or disparaging nature to third parties regarding the Company or any of their members, principals, officers, managers, directors, personnel, employees, agents, services or products; provided, however, that nothing contained in this Paragraph 8(b) shall preclude Executive from providing truthful testimony in response to a valid subpoena, court order, regulatory request or as may be required by law.

9. Definitions.

(a) For the purposes of this Agreement, the "Company Business" shall mean the business of owning, operating or managing inpatient rehabilitation facilities offering a range of rehabilitative health care services, and services directly ancillary thereto for which the Company receives compensation.

(b) For purposes of this Agreement, "Confidential Information" includes, but is not limited to, certain or all of the Company's and its patients', physicians' and third-party managed care providers' supply agreement arrangements, regulatory packages, registration packages, data compensation packages, methods, information, systems, plans for acquisition or disposition of products, expansion plans, financial status and plans, customer lists, client data, personnel information, consulting reports, investigative reports, Personal Health Information (PHI), strategic plans and trade secrets.

(c) For the purposes of this Agreement, "Person" shall mean an individual, corporation, joint venture, partnership, limited liability company, association, joint stock or other company, business trust, trust or other entity or organization, including any national, federal, state, territorial agency, local or foreign judicial, legislative, executive, regulatory or administrative authority, commission, court, tribunal, any political or other subdivision, department or branch of any of the foregoing, and any self regulatory organization or arbitrator.

(d) For the purposes of this Agreement, the "Restricted Territory," means the area within seventy-five (75) miles of any location where an inpatient rehabilitation facility, which is owned or operated by the Company, is located as of the Termination Date.

10. Notice to the Company. In the event that Executive accepts employment with another party at any time during the Severance Period, Executive shall inform the Company in writing on or before the commencement date of such employment and provide the Company with such other information relating to available health and welfare benefits as a result of said employment as required by Section 3.03(a) of the Plan.

11. Duty to Inform. Executive shall inform in writing any Person, who seeks to employ or engage Executive in any capacity, of Executive's obligations under Paragraphs 6, 7 and 8 of this Agreement, prior to accepting such employment or engagement.

12. Company Property. Executive represents that Executive has returned to the Company all property of the Company. Such property includes, but is not limited to, laptop computers, BlackBerry, printers, other computer equipment (including computers, printers and equipment paid-for by the Company for use at Executive's residence), cellular phones and pagers, keys, security passes, passwords, work files, records, credit cards, building ID's and all other Company property in Executive's possession on the last day of Executive's employment with the Company. Following the Termination Date, the Company shall also have no obligation to continue to make payments under any car loan or corporate membership provided to Executive as an employee of the Company.

13. No Admission of Wrongdoing. Nothing herein is to be deemed to constitute an admission of wrongdoing by the Company or any of the other Company Releases.

14. Assignment. This Agreement is binding on, and will inure to the benefit of, the Company and the other Company Releases. All rights of Executive under this Agreement shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees.

15. Injunctive Relief. Executive agrees that the Company would suffer irreparable harm if Executive were to breach, or threaten to breach, any provision of this Agreement and that the Company would by reason of such breach, or threatened breach, be entitled to injunctive relief in a court of appropriate jurisdiction, without the need to post any bond, and Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting Executive from breaching this Agreement. This Paragraph 15 shall not, however, diminish the right of the Company to claim and recover damages and other appropriate relief, including but not limited to repayment of any severance payments or benefits provided to Executive, in addition to injunctive relief.

16. **Severability.** In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. Moreover, if any one or more of the provisions contained in this Agreement shall be held to be excessively broad as to duration, activity or subject, such provisions shall be construed by limiting and reducing them so as to be enforceable to the maximum extent allowed by applicable law. Furthermore, a determination in any

jurisdiction that this Agreement, in whole or in part, is invalid, illegal or unenforceable shall not in any way affect or impair the validity, legality or enforceability of this Agreement in any other jurisdiction.

17. **Waiver.** The failure of either party to this Agreement to enforce any of its terms, provisions or covenants shall not be construed as a waiver of the same or of the right of such party to enforce the same. Waiver by either party hereto of any breach or default by the other party of any term or provision of this Agreement shall not operate as a waiver of any other breach or default.

18. **No Oral Modifications.** This Agreement may not be changed orally, but may be changed only in a writing signed by Executive and a duly authorized representative of the Company.

19. **Governing Law; Venue.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to the application of any choice-of-law rules that would result in the application of another state's laws. With respect to any action, suit or proceeding, each party irrevocably (i) submits to the jurisdiction of the courts of the State of Delaware and the United States District Court of the District of Delaware, and (ii) waives any objection which it may have at any time to the laying of venue of any proceeding brought in any such court, waives any claim that such proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such proceedings, that such court does not have jurisdiction over such party.

20. **Entire Agreement.** This Agreement sets forth the entire understanding between Executive and the Company, and supersedes all prior agreements, representations, discussions, and understandings concerning their subject matter. Executive represents that, in executing this Agreement, Executive has not relied upon any representation or statement made by the Company or any other Company Releases, other than those set forth herein, with regard to the subject matter, basis or effect of this Agreement or otherwise.

21. **Descriptive Headings.** The paragraph headings contained herein are for reference purposes only and will not in any way affect the meaning or interpretation of this Agreement.

22. **Counterparts.** This Agreement may be executed simultaneously in counterparts, each of which shall be an original, but all of which shall constitute but one and the same agreement.

IN WITNESS WHEREOF, Executive and the Company have executed this Agreement on the date indicated below.

ENCOMPASS HEALTH CORPORATION

By:

Date

EXECUTIVE

Name:

Date

[EXHIBIT A to the Form of Restricted Covenant and Release Agreement]

[INSERT PLAN]

EXHIBIT B

Name:

1. Amount Payable: \$

2. Months:

31

Exhibit 10.8.2

**FIRST AMENDMENT
TO THE
ENCOMPASS HEALTH CORPORATION NONQUALIFIED 401(k) PLAN
(as Amended and Restated Effective January 2, 2018)**

WHEREAS, Encompass Health Corporation (the “Company”) established the Encompass Health Corporation Nonqualified 401(k) Plan, which was most recently amended and restated effective January 2, 2018 (the “Plan”); and

WHEREAS, pursuant to Section 10.1 of the Plan, the Company has the authority to amend the Plan, by action of the Compensation Committee of the Board of Directors; and

WHEREAS, the Company's Board of Directors appointed the Encompass Health Corporation Retirement Plan Committee (the “Retirement Plan Committee”) and delegated to the Retirement Plan Committee the authority to adopt Plan amendments on behalf of the Company, to the extent such amendments are necessary to comply with applicable laws, rules, or regulations or do not materially increase the cost to the Company of maintaining the Plan; and

WHEREAS, the Company wishes to amend the Plan to rename the Plan as the Encompass Health Corporation Nonqualified Retirement Plan, reflect the amendment authority given to the Retirement Plan Committee by the Company's Board of Directors and make other clarifying changes; the Company's Executive Officers (“Section 16 Persons”) to file reports reflecting transactions in the Company's equity securities (including derivatives and security-based swap agreements related to such securities). Section 16 also compels these persons to disgorge short-swing profits derived from trading activity within any six-month period. Note that all trades by Section 16 Persons must be pre-cleared in accordance with Section I.B(b) of this Addendum.

A. Section 16 Reporting Obligations

WHEREAS, Each person who is or becomes a Section 16 Person must file reports concerning his or her beneficial ownership of the amendments Company securities with the Securities and Exchange Commission and the Company. There are three types of forms that must be submitted on a timely basis to comply with Section 16 reporting requirements:

- **Form 3 for First-Time Filers:** This form must be filed within 10 calendar days after the event triggering the filing. Triggering events include becoming a director or reporting officer (whether or not such person owns any corporate securities), or any transaction that places an investor's holdings in the corporation above 10 percent for the first time. Form 3 requires information as to the Section 16 Person's beneficial ownership of all classes of the Company's equity securities, including options.
- **Form 4 for Changes in Beneficial Ownership:** This form is used to report changes in the Section 16 Person's ownership position. It must be filed within two (2) business days after the transaction occurred. Directors and officers who cease to hold their positions must still report certain changes on Form 4 for up to six months after leaving their positions.
- **Form 5 for Annual Reconciliation:** The Form 5 is an annual report used to disclose certain exempt transactions not previously reported on Form 4. It must be filed within 45 calendar days after the end of a corporation's fiscal year. Many Section 16 Persons customarily file a Form 4 for all transactions, whether or not exempt, which negates the requirement of filing a Form 5.

It is the Company's policy that the ultimate responsibility to prepare and timely file Forms 3, 4 and 5 rests with the Section 16 Person, and NOT with the Company. As an accommodation to the

Company's Section 16 Persons, it is the Company's practice to furnish, prepare and file Forms 3, 4 and 5 for the Section 16 Persons, and the Company may send each Section 16 Person reminders or alerts from time to time. Each Section 16 Person is obligated to promptly provide information to the office of the General Counsel concerning any change in his or her beneficial ownership of Company securities to ensure timely filing.

B. Changes in Beneficial Ownership Covered by Section 16

As noted above, transactions causing changes in a Section 16 Person's beneficial ownership are generally required to be adopted reported on a Form 4. A wide range of transactions can trigger this reporting requirement, and Section 16 Persons should therefore consider the following points:

- Reports under Section 16 cover beneficial ownership, as opposed to mere record ownership, and therefore include securities held by others for the Section 16 Person's benefit (regardless of how the securities are registered).
- Securities held by immediate family members living in a Section 16 Person's home are rebuttably presumed to be beneficially owned by the Retirement Plan Committee because they do Section 16 Person.
- A Section 16 Person may in certain circumstances be presumed to beneficially own Company securities held in trust. This ownership may include trusts (including living or family trusts) in which such person is a settlor or has or shares investment control. In addition, trusts in which such person, or his or her immediate family member (whether or not materially increase living in the cost reporting officer's or director's home), is a beneficiary are subject to particularly complex reporting requirements.
- The concept of "securities" for Section 16 purposes includes derivative securities (such as certain deferred stock units, options, stock appreciation rights and other rights with an exercise or conversion privilege at a price related to an equity security) as well as security-based swap agreements.

C. Failure to Comply with Section 16

1. Civil and Criminal Penalties

The consequences for failure to file a Form 3, 4 or 5 or failure to file on a timely basis could result in civil penalties, including substantial monetary penalties and cease and desist orders prohibiting the Section 16 Person from trading in the Company's stock for a certain period of time. Criminal penalties could be imposed for a willful failure to comply with reporting provisions. Also, the Company must identify in its annual proxy statement those who failed to file reports or who filed delinquent reports in the previous fiscal year.

2. Disgorgement of Short Swing Profits

In addition, under Section 16, Section 16 Persons face strict liability for effecting non-exempt purchases and sales (or sales and purchases) in the Company's securities or security-based swap agreements within a six-month period that result in a "short swing profit" (whether this profit is actual or imputed). The statute compels the Section 16 Person to disgorge all profits (as calculated pursuant to Section 16) gained in the transactions. The proceeds of the disgorgement are turned over to the Company's treasury. If the Company does not bring an action to recover these profits, any stockholder acting on the Company's behalf may do so. These stockholder lawsuits are not infrequent because the various reports that must be filed pursuant to Section 16 are publicly available. There are many law firms that actively monitor filings and file lawsuits if they identify violations.

D. Limitations and Requirements on Resales of maintaining the Plan, Company's Securities

Under the Securities Act of 1933 (the "Securities Act"), directors and certain officers who are affiliates² of the Retirement Plan Committee has considered Company who wish to sell Company securities generally must comply with the amendment requirements of Rule 144 or be forced to register them under the Securities Act. "Securities" under Rule 144 (unlike under Section 16) are broadly defined to include all securities, not just equity securities. Therefore, the Rule 144 requirements apply not only to common and approved it, preferred stock, but also to bonds, debentures and any other form of security. Also, the safe harbor afforded by this rule is available whether or not the securities to be resold were previously registered under the Securities Act (except that the minimum holding period required to satisfy the safe harbor shall apply only to securities which were not registered under the Securities Act).

NOW, THEREFORE, The relevant provisions of Rule 144 as they apply to resales by directors and officers seeking to take advantage of the Plan is hereby amended safe harbor are as follows effective January 1, 2021 except as otherwise noted: follows:

1. **Effective January 1, 2023 Current public information.** There must be adequate current public information available regarding the Company. This requirement is satisfied only if the Company has (a) filed all reports required by the Exchange Act and (b) submitted all required Interactive Data Files to the SEC and posted such information to the Company website during the twelve months preceding the sale.
2. **Manner of sale.** The sale of Company shares by a director or officer must be made in an open market transaction through a broker at the prevailing market price for no more than the usual and customary brokerage commission (or to a market maker at the price held out by the market maker).³ Furthermore, the broker may not solicit or arrange for the solicitation of customers to purchase the shares. In addition, your broker likely has its own Rule 144 procedures (and must be involved in transmitting Form 144 (see item 4 below)), the cover page, preamble, and Section 2.1(aa) are amended so it is important to change the name speak with your broker prior to any sale.

Even if your stock certificates do not contain any restrictive legends, you should inform your broker that you may be considered an affiliate of the Plan Company.

3. **Number of shares which may be sold.** The amount of securities that a director or officer may sell in a three-month period is limited to the greater of:
 - a. one percent of the outstanding shares of the same class of the Company, or
 - b. the average weekly reported trading volume in the four calendar weeks preceding the transactions.
4. **Notice of proposed sale.** If the amount of securities proposed to be sold by a director or officer during any three-month period exceeds 5,000 shares or has an aggregate sale price in excess of \$50,000, the officer or director must file a notice of sale with the SEC on Form 144 prior to, or concurrently with, the placing of the order to sell securities.
5. **Holding Periods.** Any securities of the Company acquired directly or indirectly from the Company in a transaction that was not registered with the SEC under the Securities Act (restricted securities) must be held for six months prior to reselling such securities. There is no statutory minimum holding period for securities which were registered under the Securities Act or acquired in an open-market transaction.

In certain situations (e.g., securities acquired through stock dividends, splits or conversions), "tacking" is permitted, that is, the new securities will be deemed to have been acquired at the same time as the original securities.

E. Broker Interface Procedures

The timely reporting of transactions and filing of the necessary forms under Rule 144 will require a tight interface with brokers handling the Section 16 Person's transactions and the General Counsel's office. A knowledgeable, alert broker can act as a gatekeeper, helping ensure compliance with the Company's pre-clearance procedures and helping prevent inadvertent violations. Further, the Company will need to receive immediately from a broker handling the Section 16 Person's trade information about the trade that is required to be reported on Form 4. Section 16 Persons are responsible for ensuring that their brokers comply with the mandatory pre-clearance procedures and timely provide the Company with information necessary for the completion of Form 4 reports. The General Counsel may provide a Broker Representation Agreement to be established by brokers, which imposes two requirements on brokerage firms in connection with transactions in the Company's securities:

- (i) Not to enter into any order (except for orders under a Company-approved 10b5-1 Plan)
 - (A) without first verifying with the Company's General Counsel that the Section 16 Person's transaction was pre-cleared; and
 - (B) complying with the brokerage firm's compliance procedures (e.g., Rule 144).
- (ii) To report immediately to the Company's General Counsel via
 - (A) telephone; and
 - (B) in writing (via e-mail or fax) the details of every transaction involving Company securities.

Except with regard to the exceptions described above, each Covered Person must sign any required Broker Representation Agreement, have it signed by his or her broker, and return it immediately to the Company's General Counsel.

EXHIBIT A

Encompass Health Corporation Insider Trading Policy Designated Employees

- All members of the Board of Directors,
- President and Chief Executive Officer,
- All Executive Vice Presidents (or equivalents),
- Chief Investor Relations Officer,
- All professional assistants for the foregoing positions,
- Deputy General Counsel,
- Chief Medical Officer,
- Senior Vice Presidents in Operations,
- All Vice Presidents of Internal Audit and Controls,
- All Vice Presidents of Development,

- All Investor Relations Analysts,
- All Financial Reporting Managers and Analysts,
- All Vice Presidents/Directors of Tax,
- All Regional Presidents,
- All Regional Controllers,
- Vice President, Operations Controller,
- Vice Presidents, Operations,
- Vice President, Corporate Accounting,
- Corporate Financial Accounting Senior Manager,
- Consolidation and Internal Reporting Senior Manager,
- Director Financial Planning and Analysis,
- Director, Government Relations,
- Budgeting Systems and Reporting Analyst,
- Vice President, Total Rewards, and
- If not referenced above, the principal officers from the following functional areas:

Accounting,
Treasury,
Risk Management,
Reimbursement,
Compliance,
Development,
Government Relations
Internal Audit and Controls,
Human Resources,
Tax,
Information Technology,
Strategy, and
Marketing & Communications.

INSIDER TRADING POLICY CERTIFICATION

I have received and read the Encompass Health Corporation Nonqualified Retirement Plan, Insider Trading Policy and all references the Addendum thereto applicable to officers, directors and certain designated employees, and I understand their contents. I agree to comply fully with the policies and procedures contained in the Plan to the "Encompass Health Corporation Retirement Investment Plan" are changed to the "Encompass Health Corporation 401(k) Retirement Plan."

2. The first paragraph of Section 2.1(h) (Compensation) is clarified by replacing "Compensation excludes" at the conclusion of such paragraph with "Compensation includes," and by adding the following new paragraph at the conclusion thereof:

Amounts paid after termination of employment will be included in a Participant's Compensation only if the Participant terminates employment after the date the applicable payroll is processed Insider Trading Policy and the amount is otherwise included in Compensation for purposes of Addendum. I acknowledge that the Plan.

3. Section 2.1(o) (Eligible Employee) is clarified by adding the following sentence at the conclusion thereof:

1

Notwithstanding the foregoing, an Employee is not eligible for this Plan for any Plan Year unless the Company notifies the Employee that he or she is eligible for that Plan Year.

4. Section 2.1(u)(ii), relating to service by licensed professionals, is deleted in its entirety.
5. Section 2.1(x) (Leased Employee) is clarified by replacing "Period of Service" with "period of service."
6. Section 2.1(gg) (Termination of Employment) is clarified by adding the following sentence at the conclusion thereof:

Notwithstanding the foregoing, an Employee will be deemed to terminate employment if and only if he or she experiences a "Separation from Service" from the Employer and its Affiliates, as such term is defined in section 409A of the Code.

7. The table in Section 4.3(b) is clarified to read as follows:

Years of Vesting Service	Percentage Vested
fewer than 3 years	0%
3 or more years	100%

8. Section Article VIII is clarified by removing Sections 8.2 8.3, 8.4 and 8.6, re-designating Section 8.5 as Section 8.2, and modifying Section 8.1 to read as follows:

8.1 Retirement Plan Committee

Responsibility for administration of this Plan will be with the Retirement Plan Committee, which will be the named Plan Administrator. The Compensation Committee or the Retirement Plan Committee may appoint a Daily Administrator to administer the Plan on a daily basis. The Compensation Committee or the Retirement Plan Committee may remove the Daily Administrator with or without cause at any time. The specific powers and duties of the Retirement Plan Committee **Insider Trading Policy** and the Daily Administrator may be set forth in a separate charter. All decisions made by the Retirement Plan Committee, the Daily Administrator, or their respective delegates on any matter within their discretion shall be final, binding, **Addendum are statements of policies** and **conclusive** upon all Participants **procedures** and Beneficiaries, and shall be given the maximum possible deference allowed by law.

9. Effective March 1, 2020, a new subsection (d) is added to the end of Section 8.2 (Section 8.5 before this amendment) that reads as follows:

- (d) Notwithstanding any Plan provision to the contrary, the period between March 1, 2020 and sixty days after the announced end of the COVID-19 National Emergency (or such other day announced by government agencies) shall be disregarded for up to one year for purposes of determining the deadline for a Participant or Beneficiary to bring a claim or appeal for benefits under the Plan.

10. Effective February 20, 2020, Section 10.1 is amended to read as follows, to conform the Plan to resolutions approved by the Company's Board of Directors on February 20, 2020:

10.1 Amendment

The Compensation Committee may, by resolution, in its absolute discretion, from time to time, amend, any or all of the provisions of the Plan. In addition, the Retirement Plan Committee may adopt amendments to the Plan, but only to the extent such amendments (i) are necessary to comply with applicable laws, rules or regulations, (ii) do not, materially increase the cost to the Company **in any way, constitute an employment contract or an assurance** of maintaining the Plan, or (iii) are directed by the Company. No such amendment may adversely impact the amount of benefits a Participant has accrued under the Plan at such time except to the extent required by applicable law.

11. In all other respects, the Plan shall remain unchanged. **continued employment.**

EXECUTED this 31st day of December, 2022.

Printed Name

ENCOMPASS HEALTH CORPORATION

By: /s/ Stephen D. Leasure

Name: Stephen D. Leasure

Its: Authorized Signatory Signature

Date

¹This Policy supersedes the previous version of this policy approved October 25, 2019. In the event of any conflict or inconsistency between this Policy and any other materials previously distributed by the Company, this Policy shall govern.

² Rule 144 under the Securities Act defines "affiliate" of an issuer as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer. "Further, Rule 144 covers not only current affiliates but those who have been an affiliate within the last three months."

[First Amendment to] Note that transactions cannot be effected on the Encompass Health Corporation Nonqualified 401(k) Plan website of the Company's equity plan administrator/broker without that broker receiving clearance from the Company.

3

Exhibit 21.1

Subsidiary Name	Jurisdiction of Incorporation	DBA
Advanced Homecare Holdings, Inc.	DE	
AnMed Encompass Health Rehabilitation Hospital, LLC	SC	AnMed Health Rehabilitation Hospital
Central Arkansas Rehabilitation Associates, L.P.	DE	CHI St. Vincent Hot Springs Rehabilitation Hospital, a partner of Encompass Health CHI St. Vincent Sherwood Rehabilitation Hospital, a partner of Encompass Health
Central Louisiana Rehab Associates, L.P.	DE	Encompass Health Rehabilitation Hospital of Alexandria
CMS Development and Management Company, LLC	DE	
CMS Rehab of WF, L.P.	DE	Encompass Health Rehabilitation Hospital of Wichita Falls
Continental Medical Systems, LLC	DE	
Continental Rehabilitation Hospital of Arizona, Inc.	DE	
Encompass Health Acquisition Holdings Subsidiary, LLC	DE	
Encompass Health Acquisition Holdings, LLC	DE	
Encompass Health Alabama Real Estate, LLC	DE	
Encompass Health Alexandria Holdings, LLC	DE	
Encompass Health Altoona Holdings, LLC	DE	
Encompass Health Arizona Real Estate, LLC	DE	
Encompass Health Arkansas Real Estate, LLC	DE	
Encompass Health Boise Holdings, LLC	DE	
Encompass Health Bryan Holdings, LLC	DE	
Encompass Health California Real Estate, LLC	DE	
Encompass Health Cape Coral Holdings, LLC	DE	
Encompass Health Central Arkansas Holdings, LLC	DE	

Encompass Health Central Arkansas Holdings, Inc.	DE	
Encompass Health Charleston Holdings, LLC	DE	
Encompass Health Dayton Holdings, LLC	DE	
Encompass Health Deaconess Holdings, LLC	DE	
Encompass Health Deaconess Rehabilitation Hospital, LLC	IN	Encompass Health Deaconess Rehabilitation Hospital
Encompass Health Fairlawn Holdings, LLC	DE	
Encompass Health Fayetteville Holdings, Inc.	DE	
Encompass Health Grand Forks Holdings, LLC	DE	
Encompass Health Gulfport Holdings, LLC	DE	
Encompass Health Illinois Real Estate, LLC	DE	
Encompass Health Iowa City Holdings, LLC	DE	
Encompass Health Johnson City Holdings, LLC	DE	
Encompass Health Joint Ventures Holdings, LLC	DE	
Encompass Health Jonesboro Holdings, Inc.	DE	
Encompass Health Kansas Real Estate, LLC	DE	
Encompass Health Kentucky Real Estate, LLC	DE	
Encompass Health Kingsport Holdings, LLC	DE	
Encompass Health Littleton Holdings, LLC	DE	
Encompass Health Louisiana Real Estate, LLC	DE	
Encompass Health Lubbock Holdings, LLC	DE	
Encompass Health Martin County Holdings, LLC	DE	
Encompass Health Maryland Real Estate, LLC	DE	
Encompass Health Massachusetts Real Estate, LLC	DE	
Encompass Health Methodist Rehabilitation Hospital, LP	TN	Encompass Health Rehabilitation Hospital of Memphis, a partner of Methodist Healthcare Encompass Health Rehabilitation Hospital of North Memphis, a partner of Methodist Healthcare
Encompass Health Midland Odessa Holdings, LLC	DE	
Encompass Health Moline Holdings, LLC	DE	
Encompass Health Myrtle Beach Holdings, LLC	DE	
Encompass Health Nevada Real Estate, LLC	DE	
Encompass Health New Mexico Real Estate, LLC	DE	
Encompass Health Ohio Real Estate, LLC	DE	
Encompass Health Oregon Real Estate, LLC	DE	
Encompass Health Owned Hospitals Holdings, LLC	DE	
Encompass Health Pennsylvania Real Estate, LLC	DE	
Encompass Health Properties, LLC	DE	
Encompass Health Real Estate, LLC	DE	
Encompass Health Rehabilitation Hospital of Abilene, LLC	DE	Encompass Health Rehabilitation Hospital of Abilene
Encompass Health Rehabilitation Hospital of Albuquerque, LLC	DE	Encompass Health Rehabilitation Hospital of Albuquerque
Encompass Health Rehabilitation Hospital of Altamonte Springs, LLC	DE	Encompass Health Rehabilitation Hospital of Altamonte Springs
Encompass Health Rehabilitation Hospital of Altoona, LLC	DE	Encompass Health Rehabilitation Hospital of Altoona Encompass Health Rehabilitation Center - Bedford Encompass Health Rehabilitation Center - Meadowbrook Plaza Encompass Health Rehabilitation Center - Regency Square Encompass Health Rehabilitation Center - Tyrone Encompass Health Rehabilitation Hospital of Altoona
Encompass Health Rehabilitation Hospital of Arlington, LLC	DE	Encompass Health Rehabilitation Hospital of Arlington
Encompass Health Rehabilitation Hospital of Austin, LLC	DE	Encompass Health Rehabilitation Hospital of Austin
Encompass Health Rehabilitation Hospital of Bakersfield, LLC	DE	Encompass Health Rehabilitation Hospital of Bakersfield
Encompass Health Rehabilitation Hospital of Bluffton, LLC	DE	Encompass Health Rehabilitation Hospital of Bluffton
Encompass Health Rehabilitation Hospital of Braintree, LLC	DE	Encompass Health Rehabilitation Hospital of Braintree Encompass Health Rehabilitation Hospital of Braintree at Framingham Encompass Health Rehabilitation Hospital of Braintree at Taunton Encompass Health Rehabilitation Hospital of Braintree Pediatric Center
Encompass Health Rehabilitation Hospital of Cape Coral, LLC	DE	Encompass Health Rehabilitation Hospital of Cape Coral

Encompass Health Rehabilitation Hospital of Cardinal Hill, LLC	DE	Cardinal Hill Rehabilitation Hospital Cardinal Hill Skilled Rehabilitation Unit
Encompass Health Rehabilitation Hospital of Charleston, LLC	SC	MUSC Health Rehabilitation Hospital, an affiliate of Encompass Health
Encompass Health Rehabilitation Hospital of Cincinnati, LLC	DE	Encompass Health Rehabilitation Hospital of Cincinnati Encompass Health Rehabilitation Hospital of Cincinnati at Norwood
Encompass Health Rehabilitation Hospital of City View, Inc.	DE	Encompass Health Rehabilitation Hospital of City View
Encompass Health Rehabilitation Hospital of Clermont, LLC	DE	Encompass Health Rehabilitation Hospital of Clermont
Encompass Health Rehabilitation Hospital of Colorado Springs, Inc.	DE	Encompass Health Rehabilitation Hospital of Colorado Springs
Encompass Health Rehabilitation Hospital of Columbia, Inc.	DE	Encompass Health Rehabilitation Hospital of Columbia
Encompass Health Rehabilitation Hospital of Concord, Inc.	DE	Encompass Health Rehabilitation Hospital of Concord
Encompass Health Rehabilitation Hospital of Cumming, LLC	DE	Encompass Health Rehabilitation Hospital of Cumming
Encompass Health Rehabilitation Hospital of Cypress, LLC	DE	Encompass Health Rehabilitation Hospital of Cypress
Encompass Health Rehabilitation Hospital of Dallas, LLC	DE	Encompass Health Rehabilitation Hospital of Dallas
Encompass Health Rehabilitation Hospital of Dayton, LLC	DE	The Rehabilitation Institute of Ohio, a Joint Venture between Premier Health and Encompass Health
Encompass Health Rehabilitation Hospital of Desert Canyon, LLC	DE	Encompass Health Rehabilitation Hospital of Desert Canyon
Encompass Health Rehabilitation Hospital of Dothan, Inc.	AL	Encompass Health Rehabilitation Hospital of Dothan
Encompass Health Rehabilitation Hospital of East Valley, LLC	DE	Encompass Health Rehabilitation Hospital of East Valley
Encompass Health Rehabilitation Hospital of Erie, LLC	DE	Encompass Health Rehabilitation Hospital of Erie
Encompass Health Rehabilitation Hospital of Fitchburg, LLC	DE	Encompass Health Rehabilitation Hospital of Fitchburg
Encompass Health Rehabilitation Hospital of Florence, Inc.	SC	Encompass Health Rehabilitation Hospital of Florence
Encompass Health Rehabilitation Hospital of Fort Smith, LLC	DE	Encompass Health Rehabilitation Hospital of Fort Smith
Encompass Health Rehabilitation Hospital of Franklin, LLC	DE	Encompass Health Rehabilitation Hospital of Franklin
Encompass Health Rehabilitation Hospital of Fredericksburg, LLC	DE	Encompass Health Rehabilitation Hospital of Fredericksburg
Encompass Health Rehabilitation Hospital of Gadsden, LLC	DE	Encompass Health Rehabilitation Hospital of Gadsden
Encompass Health Rehabilitation Hospital of Greenville, LLC	DE	Encompass Health Rehabilitation Hospital of Greenville
Encompass Health Rehabilitation Hospital of Gulfport, LLC	DE	Encompass Health Rehabilitation Hospital, a partner of Memorial Hospital at Gulfport
Encompass Health Rehabilitation Hospital of Harmarville, LLC	DE	Encompass Health Rehabilitation Hospital of Harmarville
Encompass Health Rehabilitation Hospital of Henderson, LLC	DE	Encompass Health Rehabilitation Hospital of Henderson
Encompass Health Rehabilitation Hospital of Humble, LLC	DE	Encompass Health Rehabilitation Hospital of Humble
Encompass Health Rehabilitation Hospital of Iowa City, LLC	DE	University of Iowa Health Network Rehabilitation Hospital, a venture with Encompass Health
Encompass Health Rehabilitation Hospital of Jacksonville, LLC	DE	Encompass Health Rehabilitation Hospital of Jacksonville
Encompass Health Rehabilitation Hospital of Jonesboro, LLC	AR	Encompass Health Rehabilitation Hospital of Jonesboro
Encompass Health Rehabilitation Hospital of Katy, LLC	DE	Encompass Health Rehabilitation Hospital of Katy
Encompass Health Rehabilitation Hospital of Kingsport, Kissimmee, LLC	DE	Encompass Health Rehabilitation Hospital of Kingsport, a joint venture Kissimmee
Encompass Health Rehabilitation Hospital of Ballad Lake Worth, LLC	DE	Encompass Health and Encompass Health Rehabilitation Hospital of Lake Worth
Encompass Health Rehabilitation Hospital of Lakeland, LLC	DE	Encompass Health Rehabilitation Hospital of Lakeland
Encompass Health Rehabilitation Hospital of Lakeview, LLC	DE	Encompass Health Rehabilitation Hospital of Lakeview
Encompass Health Rehabilitation Hospital of Largo, LLC	DE	Encompass Health Rehabilitation Hospital of Largo
Encompass Health Rehabilitation Hospital of Las Vegas, LLC	DE	Encompass Health Rehabilitation Hospital of Las Vegas
Encompass Health Rehabilitation Hospital of Libertyville, LLC	DE	Encompass Health Rehabilitation Institute of Libertyville
Encompass Health Rehabilitation Hospital of Manati, Inc.	DE	Encompass Health Rehabilitation Hospital of Manati
Encompass Health Rehabilitation Hospital of Martin County, LLC	DE	Encompass Health Rehabilitation Hospital, an affiliate of Martin Health
Encompass Health Rehabilitation Hospital of Mechanicsburg, LLC	DE	Encompass Health Rehabilitation Hospital of Mechanicsburg
Encompass Health Rehabilitation Hospital of Miami, LLC	DE	Encompass Health Rehabilitation Hospital of Miami
Encompass Health Rehabilitation Hospital of Middletown, LLC	DE	Encompass Health Rehabilitation Hospital of Middletown
Encompass Health Rehabilitation Hospital of Midland Odessa, LLC	DE	Encompass Health Rehabilitation Hospital of Midland Odessa
Encompass Health Rehabilitation Hospital of Modesto, LLC	DE	Encompass Health Rehabilitation Hospital of Modesto
Encompass Health Rehabilitation Hospital of Montgomery, Inc.	AL	Encompass Health Rehabilitation Hospital of Montgomery
Encompass Health Rehabilitation Hospital of Murrieta, LLC	DE	Encompass Health Rehabilitation Hospital of Murrieta
Encompass Health Rehabilitation Hospital of Naples, LLC	DE	Encompass Health Rehabilitation Hospital of Naples
Encompass Health Rehabilitation Hospital of New England, LLC	DE	Encompass Health Rehabilitation Hospital of New England Encompass Health Rehabilitation Hospital of New England at Beverly Encompass Health Rehabilitation Hospital of New England at Lowell
Encompass Health Rehabilitation Hospital of Nittany Valley, Inc.	DE	Encompass Health Rehabilitation Hospital of Nittany Valley

Encompass Health Rehabilitation Hospital of North Tampa, LLC	DE	Encompass Health Rehabilitation Hospital of North Tampa
Encompass Health Rehabilitation Hospital of Northern Kentucky, LLC	DE	Encompass Health Rehabilitation Hospital of Northern Kentucky
Encompass Health Rehabilitation Hospital of Northern Virginia, LLC	DE	Encompass Health Rehabilitation Hospital of Northern Virginia
Encompass Health Rehabilitation Hospital of Northwest Tucson, L.P.	DE	Encompass Health Rehabilitation Hospital of Northwest Tucson
Encompass Health Rehabilitation Hospital of Ocala, LLC	DE	Encompass Health Rehabilitation Hospital of Ocala
Encompass Health Rehabilitation Hospital of Panama City, Inc.	FL	Encompass Health Rehabilitation Hospital of Panama City
Encompass Health Rehabilitation Hospital of Pearland, LLC	DE	Encompass Health Rehabilitation Hospital of Pearland
Encompass Health Rehabilitation Hospital of Pensacola, LLC	DE	Encompass Health Rehabilitation Hospital of Pensacola
Encompass Health Rehabilitation Hospital of Petersburg, LLC	DE	Encompass Health Rehabilitation Hospital of Petersburg
Encompass Health Rehabilitation Hospital of Plano, LLC	DE	Encompass Health Rehabilitation Hospital of Plano
Encompass Health Rehabilitation Hospital of Prosper, LLC	DE	Encompass Health Rehabilitation Hospital of Prosper
Encompass Health Rehabilitation Hospital of Reading, LLC	DE	Encompass Health Rehabilitation Hospital of Reading
Encompass Health Rehabilitation Hospital of Richardson, LLC	DE	Encompass Health Rehabilitation Hospital of Richardson
Encompass Health Rehabilitation Hospital of Rock Hill, LLC	SC	Encompass Health Rehabilitation Hospital of Rock Hill
Encompass Health Rehabilitation Hospital of Round Rock, LLC	DE	Encompass Health Rehabilitation Hospital of Round Rock
Encompass Health Rehabilitation Hospital of San Antonio, Inc.	DE	Encompass Health Rehabilitation Hospital of San Antonio
Encompass Health Rehabilitation Hospital of San Juan, Inc.	DE	Encompass Health Rehabilitation Hospital of San Juan
Encompass Health Rehabilitation Hospital of Sarasota, LLC	DE	Encompass Health Rehabilitation Hospital of Sarasota
Encompass Health Rehabilitation Hospital of Savannah, LLC	DE	Encompass Health Rehabilitation Hospital of Savannah
Encompass Health Rehabilitation Hospital of Scottsdale, LLC	DE	Encompass Health Rehabilitation Hospital of Scottsdale
Encompass Health Rehabilitation Hospital of Sewickley, LLC	DE	Encompass Health Rehabilitation Hospital of Sewickley Encompass Health Rehabilitation Hospital of Sewickley at Heritage Valley Kennedy
Encompass Health Rehabilitation Hospital of Shelby County, LLC	DE	Encompass Health Rehabilitation Hospital of Shelby County
Encompass Health Rehabilitation Hospital of Shreveport, LLC	DE	Encompass Health Rehabilitation Hospital of Shreveport
Encompass Health Rehabilitation Hospital of Sioux Falls, LLC	DE	Encompass Health Rehabilitation Hospital of Sioux Falls
Encompass Health Rehabilitation Hospital of Southern Maryland, LLC	DE	Rehabilitation Hospital of Bowie
Encompass Health Rehabilitation Hospital of Spring Hill, Inc.	DE	Encompass Health Rehabilitation Hospital of Spring Hill
Encompass Health Rehabilitation Hospital of St. Augustine, LLC	DE	Encompass Health Rehabilitation Hospital of St. Augustine
Encompass Health Rehabilitation Hospital of Sugar Land, LLC	DE	Encompass Health Rehabilitation Hospital of Sugar Land
Encompass Health Rehabilitation Hospital of Sunrise, LLC	DE	Encompass Health Rehabilitation Hospital of Sunrise
Encompass Health Rehabilitation Hospital of Tallahassee, LLC	DE	Encompass Health Rehabilitation Hospital of Tallahassee
Encompass Health Rehabilitation Hospital of Texarkana, Inc.	DE	Encompass Health Rehabilitation Hospital of Texarkana
Encompass Health Rehabilitation Hospital of the Mid-Cities, LLC	DE	Encompass Health Rehabilitation Hospital of the Mid-Cities
Encompass Health Rehabilitation Hospital of The Woodlands, Inc.	DE	Encompass Health Rehabilitation Hospital of The Woodlands
Encompass Health Rehabilitation Hospital of Toledo, LLC	DE	Encompass Health Rehabilitation Hospital of Toledo
Encompass Health Rehabilitation Hospital of Toms River, LLC	DE	Encompass Health Rehabilitation Hospital of Toms River
Encompass Health Rehabilitation Hospital of Treasure Coast, Inc.	DE	Encompass Health Rehabilitation Hospital of Treasure Coast Coas
Encompass Health Rehabilitation Hospital of Tustin, L.P.	DE	Encompass Health Rehabilitation Hospital of Tustin
Encompass Health Rehabilitation Hospital of Utah, LLC	DE	Encompass Health Rehabilitation Hospital of Utah
Encompass Health Rehabilitation Hospital of Vineland, LLC	DE	Encompass Health Rehabilitation Hospital of Vineland
Encompass Health Rehabilitation Hospital of Waco, LLC	DE	Encompass Health Rehabilitation Hospital of Waco
Encompass Health Rehabilitation Hospital of Western Massachusetts, LLC	MA	Encompass Health Rehabilitation Hospital of Western Massachusetts
Encompass Health Rehabilitation Hospital of Westerville, LLC	DE	Mount Carmel Rehabilitation Hospital, an affiliate of Encompass Health
Encompass Health Rehabilitation Hospital of York, LLC	DE	Encompass Health Rehabilitation Hospital of York
Encompass Health Rehabilitation Hospital The Vintage, LLC	DE	Encompass Health Rehabilitation Hospital The Vintage
Encompass Health Rehabilitation Hospital Vision Park, LLC	DE	Encompass Health Rehabilitation Hospital Vision Park
Encompass Health Rehabilitation Institute of Tucson, LLC	AL	Encompass Health Rehabilitation Institute of Tucson
Encompass Health San Angelo Holdings, LLC	DE	
Encompass Health Savannah Holdings, LLC	DE	
Encompass Health Sea Pines Holdings, LLC	DE	
Encompass Health Sewickley Holdings, Rhode Island Real Estate, LLC	DE	
Encompass Health South Carolina Real Estate, LLC	DE	
Encompass Health South Dakota Real Estate, LLC	DE	

Encompass Health Southern Illinois Holdings, LLC	DE	
Encompass Health Support Companies, LLC	DE	
Encompass Health Texas Real Estate, LLC	DE	
Encompass Health Tucson Holdings, LLC	DE	
Encompass Health Tulsa Holdings, LLC	DE	
Encompass Health Tyler Holdings, Inc.	DE	
Encompass Health Utah Real Estate, LLC	DE	
Encompass Health Valley of The Sun Rehabilitation Hospital, LLC	DE	Encompass Health Valley of The Sun Rehabilitation Hospital
Encompass Health Virginia Real Estate, LLC	DE	
Encompass Health Walton Rehabilitation Hospital, LLC	DE	Walton Rehabilitation Hospital, an affiliate of Encompass Health
Encompass Health West Tennessee Holdings, LLC	DE	
Encompass Health West Virginia Real Estate, LLC	DE	
Encompass Health Westerville Holdings, Wisconsin Real Estate, LLC	DE	
Encompass Health Wichita Falls Holdings, Inc.	DE	
Encompass Health Winston-Salem Holdings, LLC	DE	
Encompass Health Yuma Holdings, Inc.	DE	
Encompass IP Holdings Corporation	DE	
Encompass PAHS Rehabilitation Hospital, LLC	CO	Encompass Health Rehabilitation Hospital of Littleton
Geisinger Encompass Health HCS Limited Liability Company	PA Cayman Islands, BWI	Geisinger Encompass Health Rehabilitation Hospital
K.C. Rehabilitation Hospital, Inc.	DE	MidAmerica Mid America Rehabilitation Hospital
Kansas Rehabilitation Hospital, Inc.	DE	Kansas Rehabilitation Hospital, a joint venture of Encompass Health and Stormont Vail Health
MMC Encompass Health Rehabilitation Hospital, LLC	NJ	Encompass Health Rehabilitation Hospital of Tinton Falls, a Joint Venture with Monmouth Medical Center
Myrtle Beach Rehabilitation Hospital, LLC	DE	Tidelands Health Rehabilitation Hospital, an affiliate of Encompass Health
New England Rehabilitation Hospital of Portland, LLC	ME	New England Rehabilitation Hospital of Portland, a Joint Venture of Maine Medical Center and Encompass Health
New England Rehabilitation Services of Central Massachusetts, Inc.	MA	Fairlawn Rehabilitation Hospital, an affiliate of Encompass Health
Northwest Arkansas Rehabilitation Associates	AR	Encompass Health Rehabilitation Hospital, a partner of Washington Regional
Novant Health Rehabilitation Hospital of Winston-Salem, LLC	DE	Novant Health Rehabilitation Hospital, an affiliate of Encompass Health
Piedmont Healthcare Encompass Health Rehabilitation Hospitals, Hospital of Athens, LLC	DE	Rehabilitation Hospital of Athens
Piedmont Healthcare Encompass Health Rehabilitation Hospital of Henry, LLC	DE	Rehabilitation Hospital of Henry
Piedmont Healthcare Encompass Health Rehabilitation Hospital of Newnan, LLC	DE	Rehabilitation Hospital of Newnan
Print Promotions Group, LLC	DE	Print Promotions Group
Quillen Rehabilitation Hospital of Johnson City, LLC	DE	Quillen Rehabilitation Hospital, a joint venture of Ballad Health and Encompass Health
Rebound, LLC	DE	Encompass Health Lakeshore Rehabilitation Hospital Encompass Health Rehabilitation Hospital of Chattanooga Encompass Health Rehabilitation Hospital of Huntington
Rehabilitation Hospital Corporation of America, LLC	DE	Encompass Health Rehabilitation Hospital of Parkersburg Encompass Health Rehabilitation Hospital of Princeton Encompass Health Rehabilitation Hospital of Richmond Encompass Health Rehabilitation Hospital of Salisbury
Rehabilitation Hospital of Bristol, Atlanta, LLC	DE	Rehabilitation Hospital of Bristol, a joint venture Atlanta
Rehabilitation Hospital of Ballad Health and Encompass Health Columbus, LLC	DE	Rehabilitation Hospital of Columbus
Rehabilitation Hospital of Grand Forks, LLC	DE	Altru Rehabilitation Hospital
Rehabilitation Hospital of Knox County, LLC	DE	Patricia Neal Rehabilitation Hospital Patricia Neal Rehabilitation Hospital Fort Sanders
Rehabilitation Hospital of Louisville, LLC	KY	Baptist Health Rehabilitation Hospital
Rehabilitation Hospital of North Alabama, LLC	DE	Encompass Health Rehabilitation Hospital of North Alabama
Rehabilitation Hospital of Phenix City, L.L.C.	AL	Regional Rehabilitation Hospital
Rehabilitation Hospital of Plano, Western Wisconsin, LLC	DE	
Reliant Blocker Corp.	DE	Rehabilitation Hospital of Western Wisconsin
Rusk Rehabilitation Center, L.L.C.	MO	Rusk Rehabilitation Hospital, an affiliation of Encompass Health and MU

		Health Care
Saint Alphonsus Regional Rehabilitation Hospital, LLC	ID	Saint Alphonsus Regional Rehabilitation Hospital, an affiliate of Encompass Health
Sea Pines Rehabilitation Hospital Limited Partnership	AL	Sea Pines Rehabilitation Hospital, an affiliate of Encompass Health
Shannon Rehabilitation Hospital, LLC	DE	Shannon Rehabilitation Hospital, an affiliate of Encompass Health
South Plains Rehabilitation Hospital, LLC	TX	South Plains Rehabilitation Hospital, an affiliate of UMC and Encompass Health
St. John Encompass Health Rehabilitation Hospital, LLC	DE	Ascension St. John Rehabilitation Hospital, an affiliate of Encompass Health - Owasso St. John Rehabilitation Hospital, an affiliate of Encompass Health
St. Joseph Encompass Health Rehabilitation Hospital, LLC	DE	CHI St. Joseph Health Rehabilitation Hospital, an affiliate of Encompass Health
Texas Hospital Partners, Inc.	DE	
The Quad Cities Rehabilitation Institute, LLC	DE	The Quad Cities Rehabilitation Institute
The Rehabilitation Institute of Southern Illinois, LLC	DE	The Rehabilitation Institute of Southern Illinois
The Rehabilitation Institute of St. Louis, LLC	MO	The Rehabilitation Institute of St. Louis, an affiliation of BJC HealthCare and Encompass Health
Tyler Rehab Associates, L.P.	DE	Christus Trinity Mother Frances Rehabilitation Hospital, a partner of Encompass Health
UVA Encompass Health Rehabilitation Hospital, LLC	VA	UVA Encompass Health Rehabilitation Hospital
Van Matre Encompass Health Rehabilitation Hospital, LLC	IL	Van Matre Encompass Health Rehabilitation Institute
Vanderbilt Stallworth Rehabilitation Hospital, L.P.	TN	Vanderbilt Stallworth Rehabilitation Hospital
West Tennessee Rehabilitation Hospital, LLC	DE	West Tennessee Healthcare Rehabilitation Hospital Cane Creek, a partnership with Encompass Health West Tennessee Healthcare Rehabilitation Hospital Jackson, a partnership with Encompass Health
West Virginia Rehabilitation Hospital, Inc.	WV	Encompass Health MountainView at Bridgeport Rehabilitation Hospital of Morgantown Encompass Health Rehabilitation Hospital of Morgantown
Western Neuro Care, Inc.	DE	at Bridgeport
Yuma Rehabilitation Hospital, L.L.C.	AZ	Yuma Rehabilitation Hospital, an affiliation of Encompass Health and Yuma Regional Medical Center

Exhibit 22

Exhibit 22.1

List of Subsidiary Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize Securities of the Registrant

The entities listed in the table below are either following direct or and indirect subsidiaries of Encompass Health Corporation and they each, jointly and severally, guarantee the payment of each series of its senior unsecured senior notes issued by Encompass Health Corporation. There are no other outstanding debt securities as of Encompass Health Corporation or its subsidiaries. December 31, 2023.

Subsidiaries of Encompass Health Corporation

Advanced Homecare Holdings, Inc.
Continental Medical Systems, LLC
Continental Rehabilitation Hospital of Arizona, Inc.
Encompass Health Acquisition Holdings Subsidiary, LLC
Encompass Health Acquisition Holdings, LLC
Encompass Health Alabama Real Estate, LLC
Encompass Health Arizona Real Estate, LLC
Encompass Health Arkansas Real Estate, LLC
Encompass Health Boise Holdings, LLC
Encompass Health Bryan Holdings, LLC
Encompass Health C Corp Sub Holdings, Inc.

Encompass Health California Real Estate, LLC

Encompass Health Cape Coral Holdings, LLC
Encompass Health Central Arkansas Holdings, Inc.
Encompass Health Charleston Holdings, LLC
Encompass Health Colorado Real Estate, LLC
Encompass Health Dayton Holdings, LLC
Encompass Health Deaconess Holdings, LLC
Encompass Health Eau Claire Holdings, LLC
Encompass Health Fairlawn Holdings, LLC
Encompass Health GKBH Holdings, LLC
Encompass Health Grand Forks Holdings, LLC
Encompass Health Gulfport Holdings, LLC
Encompass Health Illinois Real Estate, LLC
Encompass Health Iowa City Holdings, LLC
Encompass Health Iowa Real Estate, LLC
Encompass Health Johnson City Holdings, LLC
Encompass Health Joint Ventures Holdings, LLC
Encompass Health Jonesboro Holdings, Inc.
Encompass Health Kansas Real Estate, LLC
Encompass Health Kentucky Real Estate, LLC
Encompass Health Kingsport Holdings, LLC
Encompass Health Knoxville Holdings, LLC
Encompass Health Littleton Holdings, LLC

Encompass Health Louisiana Real Estate, LLC
Encompass Health Lubbock Holdings, LLC
Encompass Health Martin County Holdings, LLC
Encompass Health Maryland Real Estate, LLC
Encompass Health Massachusetts Real Estate, LLC
Encompass Health Midland Odessa Holdings, LLC
Encompass Health Moline Holdings, LLC
Encompass Health Myrtle Beach Holdings, LLC
Encompass Health **Naples Holdings, LLC**
Encompass Health Nevada Real Estate, LLC
Encompass Health New Mexico Real Estate, LLC
Encompass Health Ohio Real Estate, LLC
Encompass Health Owned Hospitals Holdings, LLC
Encompass Health Pennsylvania Real Estate, LLC

Encompass Health Properties, LLC
Encompass Health Real Estate, LLC
Encompass Health Rehabilitation Hospital of Abilene, LLC
Encompass Health Rehabilitation Hospital of Albuquerque, LLC
Encompass Health Rehabilitation Hospital of Altamonte Springs, LLC
Encompass Health Rehabilitation Hospital of Arlington, LLC
Encompass Health Rehabilitation Hospital of Austin, LLC
Encompass Health Rehabilitation Hospital of Bakersfield, LLC
Encompass Health Rehabilitation Hospital of Bluffton, LLC
Encompass Health Rehabilitation Hospital of Braintree, LLC
Encompass Health Rehabilitation Hospital of Cardinal Hill, LLC
Encompass Health Rehabilitation Hospital of Cincinnati, LLC
Encompass Health Rehabilitation Hospital of City View, Inc.
Encompass Health Rehabilitation Hospital of Clermont, LLC
Encompass Health Rehabilitation Hospital of Colorado Springs, Inc.
Encompass Health Rehabilitation Hospital of Columbia, Inc.
Encompass Health Rehabilitation Hospital of Concord, Inc.
Encompass Health Rehabilitation Hospital of Cumming, LLC
Encompass Health Rehabilitation Hospital of Cypress, LLC
Encompass Health Rehabilitation Hospital of Dallas, LLC
Encompass Health Rehabilitation Hospital of Desert Canyon, LLC
Encompass Health Rehabilitation Hospital of Dothan, Inc.
Encompass Health Rehabilitation Hospital of East Valley, LLC
Encompass Health Rehabilitation Hospital of Erie, LLC
Encompass Health Rehabilitation Hospital of Florence, Inc.
Encompass Health Rehabilitation Hospital of Fort Smith, LLC
Encompass Health Rehabilitation Hospital of Franklin, LLC
Encompass Health Rehabilitation Hospital of Fredericksburg, LLC
Encompass Health Rehabilitation Hospital of Gadsden, LLC
Encompass Health Rehabilitation Hospital of Greenville, LLC
Encompass Health Rehabilitation Hospital of Harmarville, LLC

Encompass Health Rehabilitation Hospital of Henderson, LLC
Encompass Health Rehabilitation Hospital of Humble, LLC
Encompass Health Rehabilitation Hospital of Jacksonville, LLC
Encompass Health Rehabilitation Hospital of Johnston, LLC
Encompass Health Rehabilitation Hospital of Katy, LLC
Encompass Health Rehabilitation Hospital of Lakeland, LLC
Encompass Health Rehabilitation Hospital of Lakeview, LLC
Encompass Health Rehabilitation Hospital of Largo, LLC
Encompass Health Rehabilitation Hospital of Las Vegas, LLC
Encompass Health Rehabilitation Hospital of Libertyville, LLC
Encompass Health Rehabilitation Hospital of Littleton, LLC
Encompass Health Rehabilitation Hospital of Manati, Inc.
Encompass Health Rehabilitation Hospital of Mechanicsburg, LLC
Encompass Health Rehabilitation Hospital of Miami, LLC
Encompass Health Rehabilitation Hospital of Middletown, LLC
Encompass Health Rehabilitation Hospital of Modesto, LLC
Encompass Health Rehabilitation Hospital of Montgomery, Inc.
Encompass Health Rehabilitation Hospital of Murrieta, LLC
Encompass Health Rehabilitation Hospital of New England, LLC
Encompass Health Rehabilitation Hospital of Nittany Valley, Inc.
Encompass Health Rehabilitation Hospital of North Tampa, LLC
Encompass Health Rehabilitation Hospital of Northern Kentucky, LLC
Encompass Health Rehabilitation Hospital of Northern Virginia, LLC
Encompass Health Rehabilitation Hospital of Northwest Tucson, L.P.

Encompass Health Rehabilitation Hospital of Ocala, LLC
Encompass Health Rehabilitation Hospital of Panama City, Inc.
Encompass Health Rehabilitation Hospital of Pearland, LLC
Encompass Health Rehabilitation Hospital of Pensacola, LLC
Encompass Health Rehabilitation Hospital of Petersburg, LLC
Encompass Health Rehabilitation Hospital of Plano, LLC
Encompass Health Rehabilitation Hospital of Reading, LLC
Encompass Health Rehabilitation Hospital of Richardson, LLC
Encompass Health Rehabilitation Hospital of Round Rock, LLC
Encompass Health Rehabilitation Hospital of San Antonio, Inc.
Encompass Health Rehabilitation Hospital of San Juan, Inc.
Encompass Health Rehabilitation Hospital of Sarasota, LLC
Encompass Health Rehabilitation Hospital of Scottsdale, LLC
Encompass Health Rehabilitation Hospital of Shelby County, LLC
Encompass Health Rehabilitation Hospital of Shreveport, LLC
Encompass Health Rehabilitation Hospital of Sioux Falls, LLC
Encompass Health Rehabilitation Hospital of Spring Hill, Inc.
Encompass Health Rehabilitation Hospital of St. Augustine, LLC
Encompass Health Rehabilitation Hospital of Sugar Land, LLC
Encompass Health Rehabilitation Hospital of Sunrise, LLC

Encompass Health Rehabilitation Hospital of Tallahassee, LLC
Encompass Health Rehabilitation Hospital of Texarkana, Inc.
Encompass Health Rehabilitation Hospital of the Mid-Cities, LLC
Encompass Health Rehabilitation Hospital of The Woodlands, Inc.
Encompass Health Rehabilitation Hospital of Toledo, LLC
Encompass Health Rehabilitation Hospital of Toms River, LLC
Encompass Health Rehabilitation Hospital of Treasure Coast, Inc.
Encompass Health Rehabilitation Hospital of Tustin, L.P.
Encompass Health Rehabilitation Hospital of Utah, LLC
Encompass Health Rehabilitation Hospital of Vineland, LLC
Encompass Health Rehabilitation Hospital of Waco, LLC
Encompass Health Rehabilitation Hospital of Western Massachusetts, LLC
Encompass Health Rehabilitation Hospital of York, LLC
Encompass Health Rehabilitation Hospital The Vintage, LLC
Encompass Health Rehabilitation Hospital Vision Park, LLC
Encompass Health Rehabilitation Institute of Tucson, LLC
Encompass Health San Angelo Holdings, LLC
Encompass Health Savannah Holdings, LLC
Encompass Health Sea Pines Holdings, LLC
Encompass Health Sewickley Holdings, LLC
Encompass Health South Carolina Real Estate, LLC
Encompass Health South Dakota Real Estate, LLC
Encompass Health Southern Illinois Holdings, LLC
Encompass Health **Southern Maryland Holdings, LLC**
Encompass Health Support Companies, LLC
Encompass Health Texas Real Estate, LLC
Encompass Health Tucson Holdings, LLC
Encompass Health Tulsa Holdings, LLC
Encompass Health Tyler Holdings, Inc.
Encompass Health Utah Real Estate, LLC
Encompass Health ValleyofTheSun Rehabilitation Hospital, LLC
Encompass Health Virginia Real Estate, LLC
Encompass Health Walton Rehabilitation Hospital, LLC
Encompass Health West Tennessee Holdings, LLC
Encompass Health West Virginia Real Estate, LLC

Encompass Health Westerville Holdings, LLC
Encompass Health Winston-Salem Holdings, LLC
Encompass Health Yuma Holdings, Inc.
Encompass IP Holdings Corporation
HealthSouth Rehabilitation Hospital of Austin, Inc.
HealthSouth Rehabilitation Hospital of Fort Worth, LLC
Print Promotions Group, LLC
Rebound, LLC
Rehabilitation Hospital Corporation of America, LLC

Rehabilitation Hospital of North Alabama, LLC
Rehabilitation Hospital of Plano, LLC
Reliant Blocker Corp.
Western Neuro Care, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-141702, 333-157445, 333-175981, and 333-212840) and Form S-3 (No. 333-248942) 333-275234 of Encompass Health Corporation of our report dated February 27, 2023 February 28, 2024 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Birmingham, Alabama
February 27, 2023 28, 2024

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark J. Tarr, certify that:

1. I have reviewed this Annual Report on Form 10-K of Encompass Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2023 February 28, 2024

By: /s/ MARK J. TARR

Name: Mark J. Tarr

Title: President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas E. Coltharp, certify that:

1. I have reviewed this Annual Report on Form 10-K of Encompass Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this

report is being prepared;

- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2023 February 28, 2024

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATE OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Encompass Health Corporation on Form 10-K for the period ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark J. Tarr, President and Chief Executive Officer of Encompass Health Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the "2002 Act"), that to the best of my knowledge and belief:

- 1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Encompass Health Corporation.

Date: February 27, 2023 February 28, 2024

By: /s/ MARK J. TARR

Name: Mark J. Tarr

Title: President and Chief Executive Officer

A signed original of this written statement has been provided to Encompass Health Corporation and will be retained by Encompass Health Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by Encompass Health Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Encompass Health Corporation specifically incorporates it by reference.

**CERTIFICATE OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Encompass Health Corporation on Form 10-K for the period ended **December 31, 2022** **December 31, 2023**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas E. Coltharp, Executive Vice President and Chief Financial Officer of Encompass Health Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (the "2002 Act"), that to the best of my knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Encompass Health Corporation.

Date: **February 27, 2023** **February 28, 2024**

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement has been provided to Encompass Health Corporation and will be retained by Encompass Health Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This written statement shall not, except to the extent required by the 2002 Act, be deemed filed by Encompass Health Corporation for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that Encompass Health Corporation specifically incorporates it by reference.

Encompass Health Corporation Compensation Recoupment Policy
(adopted by the Board of Directors on July 20, 2023)

Except as noted below, the terms of this Policy, as may be amended from time to time, apply to each officer participating in one or both of the senior management bonus plan and the long-term incentive plan, as each may be amended from time to time, of Encompass Health Corporation (the "Company"). The Board of Directors of the Company (the "Board") has designated its Compensation and Human Capital Committee (the "Committee") as administrator of this Policy and delegated thereto all authority to make determinations under, and interpretations of, this Policy. Capitalized terms used in Sections I and II but not defined therein shall have the meanings set forth in Section III.

I. General Policy

If any officer is found to have committed fraud or engaged in intentional misconduct in the performance of his or her duties for the Company, as determined by a final, non-appealable judgment of a court of competent jurisdiction, and the Committee determines in its sole judgment that such action caused harm to the Company, the Committee may, to the extent permitted by applicable law and to the extent it determines in its sole judgment that it is in the best interests of the Company to do so, (A) require reimbursement or return of any bonus or incentive compensation paid or delivered to such officer, (B) cause the cancellation of such officer's restricted or deferred stock awards and outstanding stock options, and (C) require reimbursement of any gains realized on the exercise of stock options.

With respect to any officers who are not Executive Officers, the Committee may, to the extent permitted by applicable law and to the extent it determines in its sole judgment that it is in the best interests of the Company to do so, (a) require reimbursement or return of any bonus or incentive compensation paid or delivered to such officer, (b) cause the cancellation of such officer's restricted or deferred stock awards and outstanding stock options, and (c) require reimbursement of any gains realized on the exercise of stock options, if and to the extent that (x) the amount of such compensation was calculated based upon the achievement of certain financial results that were subsequently reduced due to an Accounting Restatement and (y) the amount of such compensation that would have been awarded or delivered to such officer had the financial results been properly reported would have been lower than the amount actually awarded or delivered.

II. Additional Terms Applicable to Executive Officers

In addition to the General Policy in Section I, Executive Officers, and only Executive Officers, shall also be subject to the terms and conditions set forth in this Section II.

1. Interpretation. The terms set forth in this Section II are intended to comply with the requirements set forth in the corporate governance rules (the "Listing Rule") of The New York Stock Exchange, or any other exchange on which the Company lists common stock (the "Stock Exchange") and Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and shall be construed and interpreted in accordance with such intent. The Committee has full and final authority to make all determinations, in each case to the extent permitted under the Listing Rule and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Any action or inaction by the Committee with respect to an Executive Officer under this Policy in no way limits the Committee's actions or decisions not to act with respect to any other Executive Officer under this Policy or under any similar policy, agreement or arrangement, nor shall any such action or inaction serve as a waiver of any rights the Company may have against any Executive Officer other than as set forth in this Policy.

2. Policy Application. This Policy applies to all Incentive-Based Compensation received by a person: (i) after beginning service as an Executive Officer; (ii) who served as an Executive Officer at any time during the performance period for such Incentive-Based Compensation; (iii) while the Company had a class of securities listed on a national securities exchange or a national securities association; and (iv) during the three completed fiscal years immediately preceding the Accounting Restatement Date. In addition to such last three completed fiscal years, the immediately preceding clause (iv) includes any transition period that results from a change in the Company's fiscal year within or immediately following such three completed fiscal years; provided, however, that a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to twelve months shall be deemed a completed fiscal year. For purposes of this Section, Incentive-Based Compensation is deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period. For the avoidance of doubt, Incentive-Based Compensation that is subject to both a Financial Reporting Measure vesting condition and a service-based vesting condition shall be considered received when the relevant Financial Reporting Measure is achieved, even if the Incentive-Based Compensation continues to be subject to the service-based vesting condition.

3. Policy Recovery Requirement. In the event of an Accounting Restatement, the Company shall recover, reasonably promptly, Erroneously Awarded Compensation, in amounts determined pursuant to this Policy. The Company's obligation to recover Erroneously Awarded Compensation is not dependent on if or when the Company files restated financial statements. Recovery under this Policy with respect to an Executive Officer shall not require the finding of any misconduct by such Executive Officer or such Executive Officer being found responsible for the accounting error leading to an Accounting Restatement. In the event of an Accounting Restatement, the Company shall satisfy the Company's obligations under this Policy to recover any amount owed from each Executive Officer by exercising its sole and absolute discretion in how to accomplish such recovery, to the extent permitted under the Listing Rule and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code. The Company's recovery obligation pursuant to this Section shall not apply to the extent that the Committee, or in the absence of the Committee a majority of the independent directors serving on the Board, determines that such recovery would be impracticable and:

- a. The direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Stock Exchange;
- b. Recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company shall obtain an opinion of home country counsel, acceptable to the Stock Exchange, that recovery would result in such a violation, and shall provide such opinion to the Stock Exchange; or
- c. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code.

4. Policy Prohibition on Indemnification and Insurance Reimbursement. The Company is prohibited from indemnifying any Executive Officer or former Executive Officer against the loss of Erroneously Awarded Compensation. Accordingly, notwithstanding the terms of any indemnification or insurance policy or any contractual arrangement with any Executive Officer that may be interpreted to the contrary, the Company shall not indemnify any Covered Executives against the loss of any Erroneously Awarded Compensation. Further, the Company is prohibited from paying or reimbursing an Executive Officer for purchasing insurance to cover any such loss.

5. Other Recovery Obligations; General Rights. This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the U.S. Securities and Exchange Commission or the Stock Exchange, their beneficiaries, heirs, executors, administrators or other legal representatives. The Board intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, deferred compensation arrangement, compensatory plan or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy to the extent applicable as required by the Listing Rule. To the extent that the application of this Policy would provide for recovery of Incentive-Based Compensation that the Company recovers pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations, the amount the relevant Executive Officer has already reimbursed the Company will be credited to the required recovery under this Policy. This Policy shall not limit the rights of the

Company to take any other actions or pursue other remedies that the Company may deem appropriate under the circumstances and under applicable law, in each case to the extent permitted under the Listing Rule and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code. Nothing contained in this Policy shall limit the Company's ability to seek recoupment, in appropriate circumstances (including circumstances beyond the scope of this Policy) and as permitted by applicable law, of any amounts from any individual, in each case to the extent permitted under the Listing Rule and in compliance with (or pursuant to an exemption from the application of) Section 409A of the Code.

III. **Additional Definitions**

- a. *"Accounting Restatement"* means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.
- b. *"Accounting Restatement Date"* means the earlier to occur of: (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if the Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; and (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.
- c. *"Erroneously Awarded Compensation"* means, in the event of an Accounting Restatement, the amount of Incentive-Based Compensation previously received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts in such Accounting Restatement, and shall be computed without regard to any taxes paid by the relevant Executive Officer; provided, however, that for Incentive-Based Compensation based on stock price or total stockholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (i) the amount of Erroneously Awarded Compensation shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total stockholder return upon which the Incentive-Based Compensation was received; and (ii) the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the Stock Exchange.
- d. *"Executive Officer"* shall mean each individual who is currently or was previously designated as an "officer" of the Company as defined in Rule 16a-1(f) under the 1934 Act. For the avoidance of doubt, the identification of an Executive Officer for purposes of this Policy shall include each executive officer who is or was identified pursuant to Item 401(b) of Regulation S-K under the 1934 Act, as well as the principal financial officer and principal accounting officer (or, if there is no principal accounting officer, the controller).
- e. *"Financial Reporting Measure"* means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure; provided, however, that a Financial Reporting Measure is not required to be presented within the Company's financial statements or included in a filing with the U.S. Securities and Exchange Commission to qualify as a "Financial Reporting Measure." For purposes of this Policy, "Financial Reporting Measure" includes, but is not limited to, stock price and total stockholder return.
- f. *"Incentive-Based Compensation"* means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

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