REFINITIV

# DELTA REPORT

## 10-Q

ENCOMPASS HEALTH CORP

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

| TOTAL DELTAS | 437 |
| --- | --- |
| CHANGES | 120 |
| DELETIONS | 170 |
| ADDITIONS | 147 |

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

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## FORM 10-Q

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

**For the quarterly period ended March 31, 2024 June 30, 2024**
**OR**

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

**Commission File Number 001-10315**

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# Encompass Health Corporation

(Exact name of Registrant as specified in its Charter)

| | |
|---|---|
| **Delaware** | **63-0860407** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**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:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | EHC | New York Stock Exchange |

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 | ☐ | Non-Accelerated filer | ☐ |
| Smaller reporting company | ☐ | Emerging growth 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 is a shell company (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The registrant had 100,685,317 100,625,306 shares of common stock outstanding, net of treasury shares, as of April 22, 2024 July 24, 2024.

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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.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, changes to Medicare reimbursement and other healthcare laws and regulations from time to time, our business strategy, labor cost trends, our dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, the reader can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “targets,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, the factors described below could cause, and in the case of the COVID-19 pandemic has already caused, actual results to differ materially from those estimated by us.

- Each of the factors discussed in Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the year ended December 31, 2023, as well as uncertainties and factors discussed elsewhere in this Form 10-Q, including in the “Executive Overview—Key Challenges” section of Part I, Item 2, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, in our other filings from time to time with the SEC, or in materials incorporated therein by reference.
- The spin off of our home health and hospice business exposes us to a number of risks and uncertainties, including reduced business diversification; exposure to potential litigation; and inability to realize anticipated benefits from the separation, any of which could adversely affect our business, financial results or condition, or stock price.
- As a result of the spin off, we We are highly concentrated in our primary line of business, particularly with respect to Medicare regulations and reimbursement.
- 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.
- Reimbursement claims are subject to various audits and such audits may lead to assertions that we have been overpaid or have submitted improper claims, and these assertions have in the past and may will in the future require us to incur additional costs to respond to requests for records and defend the validity of payments and may ultimately require us to refund any amounts determined to have been overpaid.
- The use by governmental agencies and contractors of statistical sampling and extrapolation may substantially expand claims of overpayment or noncompliance.

- Substantive and procedural deficiencies in the administrative appeals process associated with denied Medicare reimbursement claims, including from various Medicare audit programs, have in the past and could in the future 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 and conveners could adversely affect our revenues or profitability.
- Changes in our payor mix or the acuity of our patients could reduce our revenues or profitability.
- Changes in the rules and regulations of the healthcare industry at the federal, state, and local levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction (such as the Inpatient Rehabilitation Facility Review Choice Demonstration, 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 and have done so in the past from time to time.
- Alternative payment models and value-based purchasing initiatives could decrease our patient volumes and 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

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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 could decrease our revenues.
- 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 and has done so in the past.
- Competitive pressures in the healthcare industry, including from large acute-care hospitals that would typically serve as referral sources for us, and our response to those pressures could adversely affect our revenues or other financial results.
- Medicare quality reporting requirements could adversely affect our operating costs or Medicare reimbursement.
- 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, or managed care payors 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.

- A regional or global socio-political, weather, or other catastrophic event could severely disrupt our business, particularly in areas such as Texas or Florida where we have a concentration of hospitals.
- Regulatory and other efforts to promote a transition to a lower-carbon economy may result in significant operational and financial challenges for us.
- Our inability to maintain infectious disease prevention and control efforts that are required and effectively minimize the spread among patients and employees could decrease our patient volumes and revenues, lead to staffing shortages or otherwise interrupt operations, or lead to increased litigation risk.
- 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.



- General conditions in the economy and capital markets, including inflation, 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, an international trade war, or a sovereign debt crisis could adversely affect our financial results or condition, including access to the capital markets.

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



## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited)**

**Encompass Health Corporation and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Income**
**(Unaudited)**

| | | | | |
|---|---|---|---|---|
| | **Three Months Ended March 31,** | | | |
| | **Three Months Ended March 31,** | | | |
| | **Three Months Ended March 31,** | | | |
| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
| | **2024** | **2023** | **2024** | **2023** |
| | **(In Millions, Except Per Share Data)** | | **(In Millions, Except Per Share Data)** | |
| | **(In Millions, Except Per Share Data)** | | | |
| | **(In Millions, Except Per Share Data)** | | | |
| Net operating revenues | | | | |
| Operating expenses: | | | | |
| Operating expenses: | | | | |
| Operating expenses: | | | | |
| Salaries and benefits | | | | |

| |
|---|
| Salaries and benefits |
| Salaries and benefits |
| Other operating expenses |
| Other operating expenses |
| Other operating expenses |
| Occupancy costs |
| Occupancy costs |
| Occupancy costs |
| Supplies |
| Supplies |
| Supplies |
| General and administrative expenses |
| General and administrative expenses |
| General and administrative expenses |
| Depreciation and amortization |
| Depreciation and amortization |
| Depreciation and amortization |
| Total operating expenses |
| Total operating expenses |
| Total operating expenses |
| 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 |
| Other income |
| Other income |
| Other income |
| Equity in net income of nonconsolidated affiliates |
| Equity in net income of nonconsolidated affiliates |
| Equity in net income of nonconsolidated affiliates |
| Income from continuing operations before income tax expense |
| Income from continuing operations before income tax expense |
| Income from continuing operations before income tax expense |
| Provision for income tax expense |
| Provision for income tax expense |
| Provision for income tax expense |
| Income from continuing operations |
| Income from continuing operations |
| Income from continuing operations |
| Loss from discontinued operations, net of tax |
| Loss from discontinued operations, net of tax |
| Loss from discontinued operations, net of tax |
| **Net and comprehensive income** |
| **Net and comprehensive income** |
| **Net and comprehensive income** |
| Less: Net and comprehensive income attributable to noncontrolling interests |
| Less: Net and comprehensive income attributable to noncontrolling interests |
| Less: Net and comprehensive income attributable to noncontrolling interests |
| Less: Net and comprehensive income attributable to noncontrolling interests |
| **Net and comprehensive income attributable to Encompass Health** |
| **Net and comprehensive income attributable to Encompass Health** |
| **Net and comprehensive income attributable to Encompass Health** |

| |
|---|
| **Weighted average common shares outstanding:** |
| **Weighted average common shares outstanding:** |
| **Weighted average common shares outstanding:** |
| Basic |
| Basic |
| Basic |
| Diluted |
| Diluted |
| Diluted |
| **Earnings per common share:** |
| **Earnings per common share:** |
| **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:** |
| Continuing operations |
| Continuing operations |
| Continuing operations |
| Discontinued operations |
| Discontinued operations |
| Discontinued operations |
| Net income |
| Net income |
| Net income |
| **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 |
| Continuing operations |
| Discontinued operations |
| Discontinued operations |
| Discontinued operations |
| Net income |
| Net income |
| Net income |
| **Amounts attributable to Encompass Health common shareholders:** |
| **Amounts attributable to Encompass Health common shareholders:** |
| **Amounts attributable to Encompass Health common shareholders:** |
| Income from continuing operations |
| Income from continuing operations |
| Income from continuing operations |
| Loss from discontinued operations, net of tax |
| Loss from discontinued operations, net of tax |
| Loss from discontinued operations, net of tax |
| Net income attributable to Encompass Health |
| Net income attributable to Encompass Health |
| Net income attributable to Encompass Health |

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

**Encompass Health Corporation and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**

| | | | |
|---|---|---|---|
| | **March 31, 2024** | **December 31, 2023** | |
| | **June 30, 2024** | **December 31, 2023** | |
| | **(In Millions)** | **(In Millions)** | |
| **Assets** | **Assets** | **Assets** | |
| **Current assets:** | **Current assets:** | | **Current assets:** |
| Cash and cash equivalents | | | |
| Restricted cash | | | |
| Accounts receivable | | | |
| Other current assets | | | |
| Total current assets | | | |
| Total current assets | | | |
| Total current assets | | | |
| Property and equipment, net | | | |
| Operating lease right-of-use assets | | | |
| Goodwill | | | |
| Intangible assets, net | | | |
| Other long-term assets | | | |
| Other long-term assets | | | |
| Other long-term assets | | | |
| **Total assets**(1) | | | |
| **Total assets**(1) | | | |
| **Total assets**(1) | | | |
| **Liabilities and Shareholders' Equity** | | | |
| **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 operating lease liabilities | | | |
| Accounts payable | | | |
| Accrued expenses and other current liabilities | | | |
| Accrued expenses and other current liabilities | | | |
| Accrued expenses and other current liabilities | | | |
| Total current liabilities | | | |
| Total current liabilities | | | |
| Total current liabilities | | | |
| Long-term debt, net of current portion | | | |
| Long-term operating lease liabilities | | | |
| Deferred income tax liabilities | | | |
| Other long-term liabilities | | | |
| **Total liabilities**(1) | | | |
| **Total liabilities**(1) | | | |
| **Total liabilities**(1) | | | |
| Commitments and contingencies | Commitments and contingencies | Commitments and contingencies | |

| | | |
|---|---|---|
| Redeemable noncontrolling interests | | |
| Redeemable noncontrolling interests | | |
| Redeemable noncontrolling interests | | |
| **Shareholders' equity:** | **Shareholders' equity:** | **Shareholders' equity:** |
| Encompass Health shareholders' equity | | |
| Noncontrolling interests | | |
| Total shareholders' equity | | |
| **Total liabilities(1) and shareholders' equity** | | |

(1) Our consolidated assets as of March 31, 2024 June 30, 2024 and December 31, 2023 include total assets of variable interest entities of $212.7 million $204.1 million and $207.7 million, respectively, which cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of March 31, 2024 June 30, 2024 and December 31, 2023 include total liabilities of the variable interest entities of $42.7 million $45.1 million and $42.2 million, respectively. See Note 2, *Variable Interest Entities.*

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



**Encompass Health Corporation and Subsidiaries**
**Condensed Consolidated Statements of Shareholders' Equity**
**(Unaudited)**

| | Three Months Ended March 31, 2024 | | | | | | | Three Months Ended June 30, 2024 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In Millions) | | | | | | | (In Millions) | | | | | | |
| | Encompass Health Common Shareholders | | | | | | | Encompass Health Common Shareholders | | | | | | |
| | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total |
| **Balance at beginning of period** | | | | | | | | | | | | | | |
| Net income | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Distributions declared | | | | | | | | | | | | | | |
| Distributions declared | | | | | | | | | | | | | | |

| |
|---|
| Distributions declared |
| Capital contributions from consolidated affiliates |
| Repurchases of common stock in open market |
| Repurchases of common stock in open market |
| Repurchases of common stock in open market |
| Other |
| Other |
| Other |
| **Balance at end of period** |

| | Three Months Ended March 31, 2023 | | | | | | | Three Months Ended June 30, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (In Millions) | | | | | | | (In Millions) | | | | | | |
| | Encompass Health Common Shareholders | | | | | | | Encompass Health Common Shareholders | | | | | | |
| | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total |
| **Balance at beginning of period** | | | | | | | | | | | | | | |
| Net income | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Receipt of treasury stock | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Dividends declared ($0.15 per share) | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Stock-based compensation | | | | | | | | | | | | | | |
| Distributions declared | | | | | | | | | | | | | | |

| |
|---|
| Distributions declared |
| Distributions declared |
| Capital contributions from consolidated affiliates |
| Other |
| Other |
| Other |
| **Balance at end of period** |

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



**Encompass Health Corporation and Subsidiaries**
**Condensed Consolidated Statements of Shareholders' Equity (Continued)**
**(Unaudited)**

| | Six Months Ended June 30, 2024 (In Millions) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Encompass Health Common Shareholders | | | | | | |
| | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total |
| **Balance at beginning of period** | 100.3 | $ 1.2 | $ 1,787.0 | $ 406.5 | $ (547.2) | $ 607.7 | $ 2,255.2 |
| Net income | — | — | — | 226.6 | — | 55.7 | 282.3 |
| Receipt of treasury stock | (0.2) | — | — | — | (12.1) | — | (12.1) |
| Dividends declared ($0.30 per share) | — | — | 0.2 | (30.8) | — | — | (30.6) |
| Stock-based compensation | — | — | 22.9 | — | — | — | 22.9 |
| Distributions declared | — | — | — | — | — | (58.1) | (58.1) |
| Capital contributions from consolidated affiliates | — | — | — | — | — | 36.6 | 36.6 |
| Repurchases of common stock in open market | (0.2) | — | — | — | (16.8) | — | (16.8) |
| Other | 0.8 | — | (3.3) | — | 5.2 | 0.1 | 2.0 |
| **Balance at end of period** | 100.7 | $ 1.2 | $ 1,806.8 | $ 602.3 | $ (570.9) | $ 642.0 | $ 2,481.4 |

| | Six Months Ended June 30, 2023 (In Millions) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Encompass Health Common Shareholders | | | | | | |
| | Number of Common Shares Outstanding | Common Stock | Capital in Excess of Par Value | Accumulated Income | Treasury Stock | Noncontrolling Interests | Total |
| **Balance at beginning of period** | 99.8 | $ 1.1 | $ 1,730.2 | $ 115.7 | $ (536.7) | $ 516.0 | $ 1,826.3 |
| Net income | — | — | — | 179.1 | — | 47.1 | 226.2 |
| Receipt of treasury stock | (0.1) | — | — | — | (7.7) | — | (7.7) |
| Dividends declared ($0.30 per share) | — | — | — | (30.2) | — | — | (30.2) |
| Stock-based compensation | — | — | 23.5 | — | — | — | 23.5 |
| Distributions declared | — | — | — | — | — | (58.7) | (58.7) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Capital contributions from consolidated affiliates | — | — | — | — | — | 38.0 | 38.0 |
| Other | 0.5 | 0.1 | 1.3 | — | (1.1) | — | 0.3 |
| **Balance at end of period** | 100.2 | $ 1.2 | $ 1,755.0 | $ 264.6 | $ (545.5) | $ 542.4 | $ 2,017.7 |

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



**Encompass Health Corporation and Subsidiaries**
**Condensed Consolidated Statements of Cash Flows**
**(Unaudited)**

| | | Three Months Ended March 31, | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | | 2024 | 2023 | | 2024 | 2023 |
| | | (In Millions) | | (In Millions) | | |
| **Cash flows from operating activities:** | **Cash flows from operating activities:** | | | **Cash flows from operating activities:** | | |
| Net income | | | | | | |
| Loss 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 — | | | Adjustments to reconcile net income to net cash provided by operating activities— | | |
| Depreciation and amortization | | | | | | |
| Depreciation and amortization | | | | | | |
| Depreciation and amortization | | | | | | |
| Stock-based compensation | | | | | | |
| Stock-based compensation | | | | | | |
| Stock-based compensation | | | | | | |
| Deferred tax expense | | | | | | |
| Other, net | | | | | | |
| Other, net | | | | | | |
| Other, net | | | | | | |
| Change in assets and liabilities, net of acquisitions— | Change in assets and liabilities, net of acquisitions— | | | | Change in assets and liabilities, net of acquisitions— | |
| Accounts receivable | | | | | | |
| Other assets | | | | | | |
| Accounts payable | | | | | | |
| Other liabilities | | | | | | |
| Other liabilities | | | | | | |
| Other liabilities | | | | | | |
| Net cash used in operating activities of discontinued operations | | | | | | |
| Total adjustments | | | | | | |
| **Net cash provided by operating activities** | | | | | | |
| **Cash flows from investing activities:** | | | | | | |
| 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 |
| Proceeds from sale of restricted investments |
| Proceeds from sale of restricted investments |
| Other, net |
| Other, net |
| Other, net |
| **Net cash used in investing activities** |
| **Net cash used in investing activities** |
| **Net cash used in investing activities** |
| **Cash flows from financing activities:** |
| **Cash flows from financing activities:** |
| **Cash flows from financing activities:** |
| Principal borrowings on notes |
| Principal payments on debt, including pre-payments |
| Principal borrowings on notes |
| Principal payments on debt, including pre-payments |
| Principal borrowings on notes |
| Principal payments on debt, including pre-payments |
| Borrowings on revolving credit facility |
| Payments on revolving credit facility |
| Principal payments under finance lease obligations |
| Taxes paid on behalf of employees for shares withheld |
| Taxes paid on behalf of employees for shares withheld |
| Taxes paid on behalf of employees for shares withheld |
| Contributions from noncontrolling interests of consolidated affiliates |
| Dividends paid on common stock |
| Distributions paid to noncontrolling interests of consolidated affiliates |
| Repurchases of common stock, including fees and expenses |
| Other, net |
| Other, net |
| Other, net |
| **Net cash used in financing activities** |
| **Net cash used in financing activities** |
| **Net cash used in financing activities** |
| **Increase in cash, cash equivalents, and restricted cash** |
| **Increase in cash, cash equivalents, and restricted cash** |
| **Increase in cash, cash equivalents, and restricted cash** |
| **Cash, cash equivalents, and restricted cash at beginning of period** |
| **Cash, cash equivalents, and restricted cash at end of period** |

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



**Encompass Health Corporation and Subsidiaries**

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

| | Three Months Ended March 31, Three Months Ended March 31, Three Months Ended March 31, Six Months Ended June 30, Six Months Ended June 30, Six Months Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2024 | 2024 | 2023 | 2024 | 2023 |
| | (In Millions) | | | | |
| **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 | | | | | |
| Restricted cash at beginning of period | | | | | |
| Cash, cash equivalents, and restricted cash at beginning of period | | | | | |
| Cash, cash equivalents, and restricted cash at beginning of period | | | | | |
| Cash, cash equivalents, and restricted cash at beginning of period | | | | | |
| Cash and cash equivalents at end of period | | | | | |
| Cash and cash equivalents at end of period | | | | | |
| Cash and cash equivalents at end of period | | | | | |
| Restricted cash at end of period | | | | | |
| Cash, cash equivalents, and restricted cash at end of period | | | | | |
| Cash, cash equivalents, and restricted cash at end of period | | | | | |
| Cash, cash equivalents, and restricted cash at end of period | | | | | |
| **Supplemental schedule of noncash operating, investing, and financing activities:** | | | | | |
| **Supplemental schedule of noncash operating, investing, and financing activities:** | | | | | |
| **Supplemental schedule of noncash operating, 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 | | | | | |
| Operating lease additions and adjustments | | | | | |
| Joint venture contributions | | | | | |
| Joint venture contributions | | | | | |
| Joint venture contributions | | | | | |

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

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**Encompass Health Corporation and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements**

## 1. Basis of Presentation

Encompass Health Corporation (the "Company" or "Encompass Health"), incorporated in Delaware in 1984, including its subsidiaries, is a provider of inpatient rehabilitation services. Our national network of inpatient rehabilitation hospitals stretches across 37 states and Puerto Rico, with concentrations of hospitals in Florida and Texas. As of March 31, 2024 June 30, 2024, we operate 160 163 inpatient rehabilitation hospitals. We are the sole owner of 98 99 of these hospitals. We retain 50.0% to 97.5% ownership in the remaining 62 64 jointly owned hospitals.

The accompanying unaudited condensed consolidated financial statements of Encompass Health Corporation and Subsidiaries should be read in conjunction with the consolidated financial statements and accompanying notes contained in Encompass Health's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission on February 28, 2024 (the "2023 Form 10-K"). The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the SEC applicable to interim financial information. Certain information and note disclosures included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in these interim statements, as allowed by such SEC rules and regulations. The condensed consolidated balance sheet as of December 31, 2023 has been derived from audited financial statements, but it does not include all disclosures required by GAAP. However, we believe the disclosures are adequate to make the information presented not misleading. Certain prior year amounts may have been reclassified for comparative purposes to conform to the current-year financial statement presentation.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state the financial position, results of operations, and cash flows for each interim period presented.

*Net Operating Revenues*—

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

| | | | | | |
|---|---|---|---|---|---|
| | **Three Months Ended March 31,** | | | | |
| | **Three Months Ended March 31,** | | | | |
| | **Three Months Ended March 31,** | | | | |
| | **2024** | | | | |
| | **2024** | | | | |
| | | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
| | **2024** | **2024** | **2023** | **2024** | **2023** |
| Medicare | | | | | |
| Medicare | | | | | |
| Medicare | | | | | |
| Medicare Advantage | | | | | |
| Medicare Advantage | | | | | |
| Medicare Advantage | | | | | |
| Managed care | | | | | |
| Managed care | | | | | |
| Managed care | | | | | |
| Medicaid | | | | | |
| Medicaid | | | | | |
| Medicaid | | | | | |
| Other third-party payors | | | | | |
| Other third-party payors | | | | | |
| Other third-party payors | | | | | |
| Workers' compensation | | | | | |
| Workers' compensation | | | | | |
| Workers' compensation | | | | | |
| Patients | | | | | |
| Patients | | | | | |
| Patients | | | | | |
| Other income | | | | | |
| Other income | | | | | |
| Other income | | | | | |
| Total | | | | | |
| Total | | | | | |
| Total | | | | | |

See Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements accompanying the 2023 Form 10-K for our policy related to *Net operating revenues*.

*Recently Adopted* *Noncontrolling Interests in Consolidated Affiliates*—

Effective July 1, 2024, we expanded our existing joint venture with Piedmont Healthcare ("Piedmont"), which we control, by contributing the assets and operations of our previously wholly-owned 70-bed hospital in Augusta, Georgia. Piedmont contributed approximately $90 million on July 1, 2024, which indirectly resulted in Piedmont obtaining a 50% ownership interest in the hospital. As a result of this transaction, we expect to record a post-tax gain of approximately $23 million increasing C*apital in excess of par value* on the condensed consolidated statement of shareholders' equity for the nine months ending September 30, 2024.

On July 1, 2023, we entered into a joint venture agreement with the University of Maryland Rehabilitation Institute of Southern Maryland, LLC ("UM Rehab") to operate our previously wholly-owned 60-bed hospital in Bowie, Maryland. As a condition of the joint venture agreement, UM Rehab paid $26.3 million on June 30, 2023, for a 50% ownership interest in the hospital which became effective on July 1, 2023. This payment is included in *Contributions from noncontrolling interests of consolidated affiliates* on the condensed consolidated statement of cash flows for the six months ended June 30, 2023.

*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 condensed 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 condensed consolidated financial statements.

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





**2. Variable Interest Entities**

As of March 31, 2024 June 30, 2024 and December 31, 2023, we consolidated eight limited partnership-like entities that are variable interest entities ("VIEs") and of which we are the primary beneficiary. Our ownership percentages in these entities range from 50.0% to 75.0% as of March 31, 2024 June 30, 2024. 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.

The carrying amounts and classifications of the consolidated VIEs' assets and liabilities, which are included in our condensed consolidated balance sheets, are as follows (in millions):

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| | **June 30, 2024** | **December 31, 2023** |
| **Assets** | | |
| Current assets: | | |
| Current assets: | | |
| Current assets: | | |
| Cash and cash equivalents | | |
| Cash and cash equivalents | | |
| Cash and cash equivalents | | |
| Accounts receivable | | |
| Other current assets | | |
| Total current assets | | |
| Total current assets | | |

| | |
|---|---|
| Total current assets | |
| Property and equipment, net | |
| Operating lease right-of-use assets | |
| Goodwill | |
| Intangible assets, net | |
| Other long-term assets | |
| Total assets | |
| Total assets | |
| Total assets | |
| **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 | |
| Accounts payable | |
| Accounts payable | |
| Accounts payable | |
| Accrued expenses and other current liabilities | |
| Total current liabilities | |
| Total current liabilities | |
| Total current liabilities | |
| Long-term debt, net of current portion | |
| Long-term operating lease liabilities | |
| Total liabilities | |
| Total liabilities | |
| Total liabilities | |



**Encompass Health Corporation and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements**

### 3. Long-term Debt

Our long-term debt outstanding consists of the following (in millions):

| | | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| | | June 30, 2024 | December 31, 2023 |
| Credit Agreement— | Credit Agreement— | | Credit Agreement— |
| Advances under revolving credit facility | | | |
| Bonds payable— | | | |
| Bonds payable— | | | |
| Bonds payable— | | | |
| 5.75% Senior Notes due 2025 | | | |
| 5.75% Senior Notes due 2025 | | | |
| 5.75% Senior Notes due 2025 | | | |
| 4.50% Senior Notes due 2028 | | | |
| 4.75% Senior Notes due 2030 | | | |
| 4.625% Senior Notes due 2031 | | | |
| Other notes payable | | | |
| Finance lease obligations | | | |

| | |
|---|---|
| | 2,708.2 |
| | 2,716.6 |
| Less: Current portion | |
| Long-term debt, net of current portion | |

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

| | Face Amount | Face Amount | Net Amount | Face Amount | Net Amount |
|---|---|---|---|---|---|
| April 1 through December 31, 2024 | | | | | |
| July 1 through December 31, 2024 | | | | | |
| 2025 | | | | | |
| 2026 | | | | | |
| 2027 | | | | | |
| 2028 | | | | | |
| 2029 | | | | | |
| Thereafter | | | | | |
| Total | | | | | |

On July 15, 2024, we issued notice for redemption of $150 million of the outstanding principal balance of our 5.75% Senior Notes due 2025 (the “2025 Notes”). The associated redemption date will be August 15, 2024, and the redemption price will be 100.0% of par, plus accrued and unpaid interest pursuant to the terms of the 2025 Notes. We plan to use cash on hand to fund the redemption. As a result of this redemption, we expect to record an approximate $0.4 million loss on early extinguishment of debt in the third quarter of 2024.

**4. Redeemable Noncontrolling Interests**

The following is a summary of the activity related to our *Redeemable noncontrolling interests* (in millions):

| | | Three Months Ended March 31, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2024 | 2024 | 2023 | 2024 | 2023 |
| Balance at beginning of period | | | | | |
| Net income attributable to noncontrolling interests | | | | | |
| Distributions declared | | | | | |
| Contribution to joint venture | | | | | |
| Balance at end of period | | | | | |
| Balance at end of period | | | | | |
| Balance at end of period | | | | | |





The following table reconciles the net income attributable to nonredeemable *Noncontrolling interests*, as recorded in the shareholders’ equity section of the condensed consolidated balance sheets, and the net income attributable to *Redeemable noncontrolling interests*, as recorded in the mezzanine section of the condensed consolidated balance sheets, to the *Net and*



**Encompass Health Corporation and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements**

*comprehensive income attributable to noncontrolling interests* presented in the condensed consolidated statements of comprehensive income (in millions):

| | |
|---|---|
| | Three Months Ended March 31, |
| | Three Months Ended March 31, |
| | Three Months Ended March 31, |
| | 2024 |

| | 2024 | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | 2024 | 2024 | 2023 | 2024 | 2023 |
| Net income attributable to nonredeemable noncontrolling interests | | | | | |
| Net income attributable to nonredeemable noncontrolling interests | | | | | |
| Net income attributable to nonredeemable noncontrolling interests | | | | | |
| Net income attributable to redeemable noncontrolling interests | | | | | |
| Net income attributable to redeemable noncontrolling interests | | | | | |
| Net income attributable to redeemable noncontrolling interests | | | | | |
| Net income attributable to noncontrolling interests | | | | | |
| Net income attributable to noncontrolling interests | | | | | |
| Net income attributable to noncontrolling interests | | | | | |

See also Note 5, *Fair Value Measurements*.

**5. 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 March 31, 2024 | 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) | | | | | | |
| As of June 30, 2024 | 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) | | | | | | | | | | | |
| Equity securities (2) | | | | | | | | | | | |
| Equity securities (2) | $113.0 | $ 4.1 | $ 108.9 | $ — | M | M | $117.3 | $4.0 | $ 113.3 | $ — | M M |
| Redeemable noncontrolling interests | | | | | | | | | | | |
| Redeemable noncontrolling interests | | | | | | | | | | | |
| Redeemable noncontrolling interests | 41.1 | — — | — — | 41.1 | 41.1 | I I | 48.6 | — — | — — | 48.6 | 48.6 I I |
| As of December 31, 2023 | | | | | | | | | | | |
| Equity securities (2) | | | | | | | | | | | |
| Equity securities (2) | | | | | | | | | | | |
| Equity securities (2) | $126.2 | $ 4.0 | $ 122.2 | $ — | M | M | $126.2 | $4.0 | $ 122.2 | $ — | M M |
| Redeemable noncontrolling interests | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Redeemable noncontrolling interests | | | | | | | | | | | | | | | | | | |
| Redeemable noncontrolling interests | 42.0 | — | — | — | — | 42.0 | 42.0 | I | I | 42.0 | — | — | — | — | 42.0 | 42.0 | I | I |

(1) The three two valuation techniques are: market approach (M), cost approach (C), and income approach (I).

(2) As of March 31, 2024 June 30, 2024, $35.8 million $37.4 million are included in *Other current assets* and $77.2 million $79.9 million are included in *Other long-term assets* in the condensed consolidated balance sheet. As of December 31, 2023, $37.6 million are included in *Other current assets* and $88.6 million are included in *Other long-term* assets in the condensed 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 three and six months ended March 31, 2024 June 30, 2024 and 2023, we did not record any material gains or losses related to these assets.





As discussed in Note 1, *Summary of Significant Accounting Policies*, "Fair Value Measurements," to the consolidated financial statements accompanying the 2023 Form 10-K, 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 condensed consolidated balance sheets. The carrying amounts and estimated fair values for all of our other financial instruments are presented in the following table (in millions):

| | As of March 31, 2024 | | As of December 31, 2023 | As of June 30, 2024 | | As of December 31, 2023 | |
|---|---|---|---|---|---|---|---|
| | 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: | | | | |
| 5.75% Senior Notes due 2025 | | | | | | | | |
| 5.75% Senior Notes due 2025 | | | | | | | | |
| 5.75% Senior Notes due 2025 | | | | | | | | |
| 4.50% Senior Notes due 2028 | | | | | | | | |
| 4.75% Senior Notes due 2030 | | | | | | | | |
| 4.625% Senior Notes due 2031 | | | | | | | | |
| Other notes payable | | | | | | | | |
| Financial commitments: | | | | | | | | |
| Letters of credit | | | | | | | | |
| Letters of credit | | | | | | | | |
| Letters of credit | | | | | | | | |

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," to the consolidated financial statements accompanying the 2023 Form 10-K.

### 6. Share-Based Payments

During the three six months ended March 31, 2024 June 30, 2024, we issued a total of 0.5 million restricted stock awards to members of our management team and our board of directors. Of the restricted stock awards issued to members of our management team, 0.2 million contain only a service condition, while the remainder contain a service and/or performance condition as well as a market condition for certain members of management. For the awards that include a performance and market condition, the number of shares that will ultimately be granted to employees may vary based on the Company's performance during the applicable three-year performance measurement period and the applicable three-year market condition measurement period. Additionally, we granted 0.1 million stock options to members of our management team. The fair value of these awards and options was determined using the policies described in Note 1, *Summary of Significant Accounting Policies*, and Note 14, *Share-Based Payments*, to the consolidated financial statements accompanying the 2023 Form 10-K.

7. **Income Taxes**

Our *Provision for income tax expense* of $38.3 million and $31.9 million $76.6 million for the three and six months ended March 31, 2024 June 30, 2024, respectively, primarily resulted from the application of our estimated effective blended federal and March 31, 2023 state income tax rate partially offset by tax benefits resulting from share-based compensation windfalls. Our *Provision for income tax expense* of $32.8 million and $64.7 million for the three and six months ended June 30, 2023, respectively, primarily resulted from the application of our estimated effective blended federal and state income tax rate.





8. **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):

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Basic:** | | | | |
| **Basic:** | | | | |
| **Basic:** | | | | |
| *Numerator:* | | | | |
| *Numerator:* | | | | |
| *Numerator:* | | | | |
| Income from continuing operations | | | | |
| Income from continuing operations | | | | |
| Income from continuing operations | | | | |
| Less: Net income attributable to noncontrolling interests included in continuing operations | | | | |
| Less: Net income attributable to noncontrolling interests included in continuing operations | | | | |
| Less: Net income attributable to noncontrolling interests included in continuing operations | | | | |
| Less: Income allocated to participating securities | | | | |
| Less: Income allocated to participating securities | | | | |
| Less: Income allocated to participating securities | | | | |
| Income from continuing operations attributable to Encompass Health common shareholders | | | | |
| Income from continuing operations attributable to Encompass Health common shareholders | | | | |
| Income from continuing operations attributable to Encompass Health common shareholders | | | | |
| Income from continuing operations attributable to Encompass Health common shareholders | | | | |
| Loss from discontinued operations attributable to Encompass Health common shareholders | | | | |
| Loss from discontinued operations attributable to Encompass Health common shareholders | | | | |
| Loss 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 | | | | |
| Net income attributable to Encompass Health common shareholders | | | | |
| *Denominator:* | | | | |
| *Denominator:* | | | | |
| *Denominator:* | | | | |
| Basic weighted average common shares outstanding | | | | |
| Basic weighted average common shares outstanding | | | | |
| Basic weighted average common shares outstanding | | | | |
| *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 |
| Continuing operations |
| Discontinued operations |
| Discontinued operations |
| Discontinued operations |
| Net income |
| Net income |
| Net income |
| **Diluted:** |
| **Diluted:** |
| **Diluted:** |
| *Numerator:* |
| *Numerator:* |
| *Numerator:* |
| Income from continuing operations |
| Income from continuing operations |
| Income from continuing operations |
| Less: Net income attributable to noncontrolling interests included in continuing operations |
| Less: Net income attributable to noncontrolling interests included in continuing operations |
| Less: Net income attributable to noncontrolling interests included in continuing operations |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Loss from discontinued operations attributable to Encompass Health common shareholders |
| Loss from discontinued operations attributable to Encompass Health common shareholders |
| Loss from discontinued operations attributable to Encompass Health common shareholders |
| Net income attributable to Encompass Health common shareholders |
| *Denominator:* |
| Basic weighted average common shares outstanding |
| Basic weighted average common shares outstanding |
| Basic weighted average common shares outstanding |
| *Basic earnings per share attributable to Encompass Health common shareholders:* |
| Continuing operations |
| Continuing operations |
| Continuing operations |
| Discontinued operations |
| Net income |
| **Diluted:** |
| **Diluted:** |
| **Diluted:** |
| *Numerator:* |
| *Numerator:* |
| *Numerator:* |
| Income from continuing operations |
| Income from continuing operations |
| Income from continuing operations |
| Less: Net income attributable to noncontrolling interests included in continuing operations |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Income from continuing operations attributable to Encompass Health common shareholders |
| Loss from discontinued operations attributable to Encompass Health common shareholders |
| Loss from discontinued operations attributable to Encompass Health common shareholders |
| Loss 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

*Denominator:*
*Denominator:*
*Denominator:*

Diluted weighted average common shares outstanding
Diluted weighted average common shares outstanding
Diluted weighted average common shares outstanding

*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
Continuing operations
Discontinued operations
Discontinued operations
Discontinued operations
Net income
Net income
Net income

12 13

**Encompass Health Corporation and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements**

The following table sets forth the reconciliation between basic weighted average common shares outstanding and diluted weighted average common shares outstanding (in millions):

| | Three Months Ended March 31, | | | | |
|---|---|---|---|---|---|
| | Three Months Ended March 31, | | | | |
| | Three Months Ended March 31, | | | | |
| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2024 | 2024 | 2023 | 2024 | 2023 |
| | 2024 | | | | |
| | 2024 | | | | |
| Basic weighted average common shares outstanding | | | | | |
| Basic weighted average common shares outstanding | | | | | |
| Basic weighted average common shares outstanding | | | | | |
| Restricted stock awards, dilutive stock options, and restricted stock units | | | | | |
| 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 | | | | | |
| Diluted weighted average common shares outstanding | | | | | |

See Note 17, *Earnings per Common Share*, to the consolidated financial statements accompanying the 2023 Form 10-K for additional information related to our common stock.

### 9. Contingencies and Other Commitments

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. 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.

*Other Matters—*

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 or its specific claims 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 United States Department of Health and Human Services Office of Inspector General and the Centers for Medicare & Medicaid Services 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, and may in the future result in, Encompass Health refunding amounts to Medicare or other federal healthcare programs.

*Other Commitments—*

We are a party to service and other contracts in connection with conducting our business. Minimum amounts due under these agreements are $43.1 million $32.3 million for the remainder of 2024, $33.2 million $40.3 million in 2025, $24.7 million $29.9 million in 2026, $23.3 million $24.9 million in 2027, $21.9 million $22.4 million in 2028, and $62.3 million thereafter. These contracts primarily relate to software licensing and support and contract services.



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**Item 2. 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") relates to Encompass Health Corporation and its subsidiaries and should be read in conjunction with our condensed consolidated financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this report. In addition, the following MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2023, Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* Part I, Item 1, *Business,* and Item 1A, *Risk Factors,* included in our Annual Report on Form 10-K for the year ended December 31, 2023 filed on February 28, 2024 (collectively, the "2023 Form 10-K").

This MD&A is designed to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. See "Cautionary Statement Regarding Forward-Looking Statements" beginning 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*, of this report and to the 2023 Form 10-K.

**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 37 states and Puerto Rico, with concentrations in Florida and Texas. As of March 31, 2024 June 30, 2024, we operate 160 163 inpatient rehabilitation hospitals. For additional information about our business, see Item 1, *Business*, and Item 1A, *Risk Factors*, of the 2023 Form 10-K.

*2024 Overview*

During the three and six months ended March 31, 2024 June 30, 2024, *Net operating revenues* increased 13.4% 9.6% and 11.5%, respectively, over the same period periods of 2023 due primarily to volume growth. See "Results of Operations" section of this Item for additional volume information.

In our continued development and expansion efforts during 2024, we:

- began operating our new 50-bed inpatient rehabilitation hospital in Kissimmee, Florida in May 2024;
- began operating our new 40-bed inpatient rehabilitation hospital in Atlanta, Georgia with our joint venture partner Piedmont in May 2024;
- began operating our new 40-bed inpatient rehabilitation hospital in Louisville, Kentucky with our joint venture partner Baptist Health in June 2024;
- continued our capacity expansions by adding 51 115 new beds to existing hospitals; hospitals (inclusive of our new 40-bed satellite inpatient rehabilitation hospital in Ballwin, Missouri which began operating in May 2024); and

- announced or continued the development of the following hospitals:

| | Number of New Beds | | |
|---|---|---|---|
| | 2024(2) | 2025(2) | 2026(2) |
| Kissimmee, Florida | 50 | — | — |
| Atlanta, Georgia(1) | 40 | — | — |
| Johnston, Rhode Island | 50 | — | — |
| Fort Mill, South Carolina | 39 | — | — |
| Louisville, Kentucky(1) | 40 | — | — |
| Houston, Texas | 61 | — | — |
| Daytona Beach, Florida | — | 50 | — |
| Fort Myers, Florida(1) | — | 60 | — |
| Lake Worth, Florida | — | 50 | — |
| Concordville, Pennsylvania | — | 50 | — |
| Norristown, Pennsylvania | — | 50 | — |
| Wildwood, Florida (in The Villages, Florida) | — | 50 | — |
| Athens, Georgia(1) | — | 40 | — |
| St. Petersburg, Florida | — | 50 | — |
| Palm Beach Gardens, Florida | — | — | 50 |
| Amarillo, Texas | — | — | 50 |
| Danbury, Connecticut | — | — | 40 |
| Avondale, Arizona | — | — | 60 |
| Loganville, Georgia(1) | — | — | 40 |
| San Antonio, Texas | — | — | 50 |

| | Expected open date | Number of New Beds | | |
|---|---|---|---|---|
| | | 2024 | 2025 | 2026 |
| **De novo projects(1)** | | | | |
| Johnston, Rhode Island(3) | 3Q24 | 50 | — | — |
| Fort Mill, South Carolina | 3Q24 | 39 | — | — |
| Houston, Texas | 4Q24 | 61 | — | — |
| Athens, Georgia(2) | 1Q25 | — | 40 | — |
| Fort Myers, Florida(2) | 2Q25 | — | 60 | — |
| Daytona Beach, Florida | 2Q25 | — | 50 | — |
| St. Petersburg, Florida | 3Q25 | — | 50 | — |
| Lake Worth, Florida | 3Q25 | — | 50 | — |
| Danbury, Connecticut | 3Q25 | — | 40 | — |
| Amarillo, Texas | | — | — | 50 |
| Concordville, Pennsylvania | | — | — | 50 |
| Norristown, Pennsylvania | | — | — | 50 |
| Loganville, Georgia(2) | | — | — | 40 |
| Irmo, South Carolina | | — | — | 50 |
| Palm Beach Gardens, Florida | | — | — | 50 |
| Avondale, Arizona | | — | — | 60 |
| San Antonio, Texas | | — | — | 50 |
| **Remote and satellite hospitals (included in bed additions)(1)** | | | | |
| Wildwood, Florida (in The Villages, Florida) | | — | 50 | — |
| **Other bed additions** | | ~110 | ~80 | ~80 |

(1) Opening dates are tentative

(2) Expected joint venture

(2) (3) Opening dates are tentative Opened in July 2024

We also continued our shareholder distributions during the three six months ended March 31, 2024 June 30, 2024 by paying a quarterly cash dividend of $0.15 per share on our common stock in January 2024, April 2024, and declaring July 2024, respectively. On July 24, 2024, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.15 $0.17 per share, payable on October 15, 2024 to stockholders of record on October 1, 2024. In addition, we repurchased 0.2 million shares of our common stock in February that was paid in April. the open market for $16.8 million during the six months ended June 30, 2024. For additional information see the "Liquidity and Capital Resources" section of this Item.

*Business Outlook*

We remain highly 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, 77, 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 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," of the 2023 Form 10-K, give us the ability to adapt and succeed in a healthcare industry facing regulatory uncertainty around attempts to improve outcomes and reduce costs.

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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 in 2024. 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* hospitals and bed additions. See also Item 1, *Business*, "Competitive Strengths" and "Strategy and 2024 Strategic Priorities" of the 2023 Form 10-K.

*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—change agility, strategic relationships, quality of patient outcomes, cost effectiveness, and ability to capitalize on growth opportunities—to adapt to and succeed in a dynamic, highly regulated industry, and we have a proven track record of doing so. For a detailed discussion of the challenges we face, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Executive Overview—Key Challenges" of the 2023 Form 10-K.

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," Item 1A, *Risk Factors*, "Reimbursement Risks" and "Other Regulatory Risks" of the 2023 Form 10-K for detailed discussions of the most important regulations we face and our programs intended to ensure we comply with those regulations.

- Changes in Medicare Reimbursement and Regulatory Requirements for Operating IRFs. On March 27, 2024 July 31, 2024, the Centers for Medicare & Medicaid Services ("CMS") released its notice of proposed final rulemaking for fiscal year 2025 for IRFs (the "2025 Proposed Final Rule") under the inpatient rehabilitation facility prospective payment system. The 2025 Proposed Final Rule will implement a net 2.8% 3.0% market basket increase (market basket update of 3.2% 3.5% reduced by a productivity adjustment of 0.4% 0.5%) effective for discharges between October 1, 2024 and September 30, 2025. The 2025 Proposed Final 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, updates to outlier payments, and updates to the case-mix group relative weights and average lengths of stay values. Based on our analysis that utilizes among other things, the acuity of our patients annualized over a twelve-month period ended February 29, 2024 June 30, 2024, our experience with outlier payments over this same time frame, and other factors, we believe the 2025 Proposed Final Rule will result in a net increase to our Medicare payment rates of approximately 3.0% 3.3% effective October 1, 2024.



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Beginning August 21, 2023, IRFs located in Alabama began participation in CMS's five-year review choice demonstration ("RCD"), under which Medicare reimbursement claims are assessed for compliance with applicable coverage and clinical documentation requirements. On March 1, 2024, CMS announced the expansion of RCD, effective June 17, 2024, to include IRFs located in Pennsylvania and billing to a certain Medicare Administrative Contractor ("MAC"). We do not bill to this MAC, so we are not subject to RCD in Pennsylvania at this time. CMS plans to expand RCD further to Texas and California, but the timing for doing so is not known. We operate 47 inpatient rehabilitation hospitals (representing approximately 29% of our IRF Medicare claims) in the four RCD states. CMS has also announced it will expand RCD to include additional IRFs based on the MAC to which those IRFs submit claims.

Under RCD, participating IRFs have an initial choice between pre-claim or post-payment review of 100% of Medicare claims submitted to demonstrate compliance with applicable requirements during the first six-month review period or cycle. We elected the pre-claim review option for our IRFs in Alabama for the first cycle. Under the pre-claim review choice, services can 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, reviewed, and approved before the final claim is paid. If a certain percentage of the claims reviewed are found to be valid, the IRF may then opt out of the 100% review. For the first cycle ending in February 2024, that validation percentage was 80% or greater. The validation percentages for cycles two and three are 85% or greater and 90% or greater, respectively. 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 statistically valid random sample. Our claim validation rate for cycle one exceeded 80% at our IRFs in Alabama. For cycle two, which begins began on May 1, 2024, we have elected the pre-claim option for not to opt out, so our IRFs in Alabama. Alabama remain subject to the 100% pre-claim review. We cannot predict the impact, if any, RCD may have on the collectability of our Medicare claims over its five-year term and ultimately our financial position, results of operations, and cash flows.

- 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.

- Recruiting and Retaining High-Quality Personnel. 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 providing high-quality, cost-effective care. Additionally, our operations have been affected and may in the future be affected by staffing shortages. In recent years, staffing shortages and competition have resulted in increased labor costs, including significant sign-on and shift bonuses, and increased use of contract labor. See Item 1A, *Risk Factors*, of the 2023 Form 10-K for further 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.

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.



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**Results of Operations**

*Payor Mix*

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

| | | |
|---|---|---|
| | **Three Months Ended March 31,** | |
| | **Three Months Ended March 31,** | |
| | **Three Months Ended March 31,** | |
| | **Three Months Ended June 30,** | **Six Months Ended June 30,** |

| | | 2024 | | 2023 | | 2024 | | 2023 | |
|---|---|---|---|---|---|---|---|---|---|
| Medicare | Medicare | 64.7 | % | 64.4 | % | 64.8 | % | 64.7 | % |
| Medicare | | | | | | | | | |
| Medicare | | | | | | | | | |
| Medicare Advantage | | | | | | | | | |
| Medicare Advantage | | | | | | | | | |
| Medicare Advantage | Medicare Advantage | 17.2 | % | 16.7 | % | 17.1 | % | 16.4 | % |
| Managed care | Managed care | 10.7 | % | 11.2 | % | 10.7 | % | 11.1 | % |
| Managed care | | | | | | | | | |
| Managed care | | | | | | | | | |
| Medicaid | | | | | | | | | |
| Medicaid | | | | | | | | | |
| Medicaid | Medicaid | 3.3 | % | 4.1 | % | 3.4 | % | 4.1 | % |
| Other third-party payors | Other third-party payors | 0.8 | % | 0.9 | % | 0.8 | % | 0.9 | % |
| Other third-party payors | | | | | | | | | |
| Other third-party payors | | | | | | | | | |
| Workers' compensation | | | | | | | | | |
| Workers' compensation | | | | | | | | | |
| Workers' compensation | Workers' compensation | 0.5 | % | 0.6 | % | 0.5 | % | 0.6 | % |
| Patients | Patients | 0.3 | % | 0.3 | % | 0.3 | % | 0.3 | % |
| Patients | | | | | | | | | |
| Patients | | | | | | | | | |
| Other income | | | | | | | | | |
| Other income | | | | | | | | | |
| Other income | Other income | 2.5 | % | 1.8 | % | 2.4 | % | 1.9 | % |
| Total | Total | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Total | | | | | | | | | |
| Total | | | | | | | | | |

For additional information regarding our payors, see the "Sources of Revenues" section of Item 1, *Business*, of the 2023 Form 10-K.



*Our Results*

Our consolidated results of operations were as follows:

| | Three Months Ended March 31, | | Percentage Change |
|---|---|---|---|
| | 2024 | 2023 | 2024 vs. 2023 |
| | (In Millions, Except Percentage Change) | | |
| Net operating revenues | $ 1,316.0 | $ 1,160.4 | 13.4 % |
| Operating expenses: | | | |
| Salaries and benefits | 711.6 | 629.0 | 13.1 % |
| Other operating expenses | 203.9 | 177.9 | 14.6 % |
| Occupancy costs | 14.0 | 13.8 | 1.4 % |
| Supplies | 58.5 | 53.8 | 8.7 % |
| General and administrative expenses | 50.2 | 43.4 | 15.7 % |
| Depreciation and amortization | 70.3 | 63.9 | 10.0 % |
| Total operating expenses | 1,108.5 | 981.8 | 12.9 % |
| Interest expense and amortization of debt discounts and fees | 35.2 | 36.4 | (3.3)% |

| | | | |
|---|---|---|---|
| Other income | (5.4) | (3.6) | 50.0 % |
| Equity in net income of nonconsolidated affiliates | (0.7) | (0.4) | 75.0 % |
| Income from continuing operations before income tax expense | 178.4 | 146.2 | 22.0 % |
| Provision for income tax expense | 38.3 | 31.9 | 20.1 % |
| Income from continuing operations | 140.1 | 114.3 | 22.6 % |
| Loss from discontinued operations, net of tax | (1.3) | (1.0) | 30.0 % |
| **Net income** | 138.8 | 113.3 | 22.5 % |
| Less: Net and comprehensive income attributable to noncontrolling interests | (26.3) | (25.6) | 2.7 % |
| **Net income attributable to Encompass Health** | $ 112.5 | $ 87.7 | 28.3 % |



| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2024 vs. 2023 | 2024 | 2023 | 2024 vs. 2023 |
| | (In Millions, Except Percentage Change) | | | | | |
| Net operating revenues | $ 1,301.2 | $ 1,187.1 | 9.6 % | $ 2,617.2 | $ 2,347.5 | 11.5 % |
| Operating expenses: | | | | | | |
| Salaries and benefits | 700.5 | 636.2 | 10.1 % | 1,412.1 | 1,265.2 | 11.6 % |
| Other operating expenses | 189.9 | 172.7 | 10.0 % | 393.8 | 350.6 | 12.3 % |
| Occupancy costs | 14.2 | 14.3 | (0.7)% | 28.2 | 28.1 | 0.4 % |
| Supplies | 57.6 | 52.0 | 10.8 % | 116.1 | 105.8 | 9.7 % |
| General and administrative expenses | 50.5 | 55.4 | (8.8)% | 100.7 | 98.8 | 1.9 % |
| Depreciation and amortization | 72.9 | 72.6 | 0.4 % | 143.2 | 136.5 | 4.9 % |
| Total operating expenses | 1,085.6 | 1,003.2 | 8.2 % | 2,194.1 | 1,985.0 | 10.5 % |
| Interest expense and amortization of debt discounts and fees | 34.3 | 36.3 | (5.5)% | 69.5 | 72.7 | (4.4)% |
| Other income | (3.3) | (2.7) | 22.2 % | (8.7) | (6.3) | 38.1 % |
| Equity in net income of nonconsolidated affiliates | (1.4) | (0.9) | 55.6 % | (2.1) | (1.3) | 61.5 % |
| Income from continuing operations before income tax expense | 186.0 | 151.2 | 23.0 % | 364.4 | 297.4 | 22.5 % |
| Provision for income tax expense | 38.3 | 32.8 | 16.8 % | 76.6 | 64.7 | 18.4 % |
| Income from continuing operations | 147.7 | 118.4 | 24.7 % | 287.8 | 232.7 | 23.7 % |
| Loss from discontinued operations, net of tax | (1.2) | (1.2) | — % | (2.5) | (2.2) | 13.6 % |
| **Net income** | 146.5 | 117.2 | 25.0 % | 285.3 | 230.5 | 23.8 % |
| Less: Net and comprehensive income attributable to noncontrolling interests | (32.4) | (25.8) | 25.6 % | (58.7) | (51.4) | 14.2 % |
| **Net income attributable to Encompass Health** | $ 114.1 | $ 91.4 | 24.8 % | $ 226.6 | $ 179.1 | 26.5 % |

**Operating Expenses as a % of Net Operating Revenues**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Operating expenses: | | | | |
| Salaries and benefits | 53.8 % | 53.6 % | 54.0 % | 53.9 % |
| Other operating expenses | 14.6 % | 14.5 % | 15.0 % | 14.9 % |

Operating expenses:
Operating expenses:
Salaries and benefits
Salaries and benefits
Other operating expenses
Other operating expenses

Other operating expenses

Occupancy costs
Occupancy costs

| | | | | | |
|---|---|---|---|---|---|
| Occupancy costs | Occupancy costs | 1.1 % | 1.2 % | 1.1 % | 1.2 % |
| Supplies | Supplies | 4.4 % | 4.4 % | 4.4 % | 4.5 % |
| General and administrative expenses | General and administrative expenses | 3.9 % | 4.7 % | 3.8 % | 4.2 % |
| Depreciation and amortization | Depreciation and amortization | 5.6 % | 6.1 % | 5.5 % | 5.8 % |
| Total operating expenses | | 83.4 % | 84.5 % | 83.8 % | 84.6 % |

Supplies
Supplies
General and administrative expenses
General and administrative expenses
Depreciation and amortization
Depreciation and amortization
Total operating expenses
Total operating expenses
Total operating expenses

20

Additional information regarding our operating results is as follows:

Three Months Ended March 31,
Three Months Ended March 31,
Three Months Ended March 31,

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2024 | 2023 | 2024 vs. 2023 | 2024 | 202 | |
| | (In Millions, Except Percentage Change) | | | (In Millions, Except Percentage Change) | | |
| **Net operating revenues:** | | | | | | |
| Inpatient | $ 1,265.5 | $ 1,162.3 | 8.9 % | $ 2,548.2 | $ 2,296.5 | |
| Outpatient and other | 35.7 | 24.8 | 44.0 % | 69.0 | 51.0 | |
| **Net operating revenues** | $ 1,301.2 | $ 1,187.1 | 9.6 % | $ 2,617.2 | $ 2,347.5 | |

2024
2024
(In Millions, Except Percentage Change)
(In Millions, Except Percentage Change)
Inpatient
Inpatient
Outpatient and other
Outpatient and other
Net operating revenues
Net operating revenues

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | (Actual Amounts) | | | | | |
| | | (Actual Amounts) | | | | | |
| | | (Actual Amounts) | | | | (Actual Amounts) | |
| Discharges | Discharges | 60,833 | 57,011 | 6.7 | % | 121,944 | 112,568 |
| Net patient revenue per discharge | Net patient revenue per discharge | $ 20,803 | $ 20,387 | 2.0 | % | $ 20,896 | $ 20,401 |
| Net patient revenue per discharge | | | | | | | |
| Net patient revenue per discharge | | | | | | | |
| Outpatient visits | | | | | | | |
| Outpatient visits | | | | | | | |
| Outpatient visits | Outpatient visits | 29,312 | 30,752 | (4.7) | % | 59,056 | 62,604 |
| Average length of stay (days) | Average length of stay (days) | 12.2 | 12.3 | (0.8) | % | 12.3 | 12.4 |
| Average length of stay (days) | | | | | | | |
| Average length of stay (days) | | | | | | | |
| Occupancy % | | | | | | | |
| Occupancy % | | | | | | | |
| Occupancy % | Occupancy % | 74.5 % | 72.4 % | 2.9 | % | 75.0 % | 72.5 % |
| # of licensed beds | # of licensed beds | 10,948 | 10,611 | 3.2 | % | 10,948 | 10,611 |
| # of licensed beds | | | | | | | |
| # of licensed beds | | | | | | | |
| Occupied beds | | | | | | | |
| Occupied beds | | | | | | | |
| Occupied beds | Occupied beds | 8,156 7,682 | 7,682 | 6.2 | 6.2 % | 8,211 7,693 | 7,693 |
| Full-time equivalents (FTEs) - internal | Full-time equivalents (FTEs) - internal | 27,297 | 25,453 | 7.2 | % | 27,253 | 25,288 |
| Full-time equivalents (FTEs) - internal | | | | | | | |
| Full-time equivalents (FTEs) - internal | | | | | | | |
| Contract labor FTEs | | | | | | | |
| Contract labor FTEs | | | | | | | |
| Contract labor FTEs | Contract labor FTEs | 450 | 476 | (5.5) | % | 442 | 467 |
| Total FTEs* | Total FTEs* | 27,747 | 25,929 | 7.0 | % | 27,695 | 25,755 |
| Total FTEs* | | | | | | | |
| Total FTEs* | | | | | | | |
| Employees per occupied bed | Employees per occupied bed | 3.40 | 3.38 | 0.6 | % | 3.37 | 3.35 |
| Employees per occupied bed | | | | | | | |
| Employees per occupied bed | | | | | | | |

* FTEs included in the above table represent our employees who participate in or support the operations of our hospitals and include 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 full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period.

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 periods and prior periods presented. These comparisons include the financial results of market consolidation transactions and capacity expansions (including the addition of satellite and remote hospitals) in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on our results of operations.



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Net Operating Revenues

Our consolidated *Net operating revenues* increased during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily due to increased volumes. Discharge growth included a 6.7% 4.8% increase in same-store discharges. Discharge growth from new stores during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 resulted from our joint ventures in Knoxville, Tennessee (March 2023), Owasso, Oklahoma (March 2023), Bowie, Maryland (June 2023), and Columbus, Georgia (September 2023), and Atlanta, Georgia (May 2024), as well as our wholly owned hospitals in Clermont, Florida (April 2023), Prosper, Texas (November 2023), and Fitchburg, Wisconsin (November 2023), and Kissimmee, Florida (May 2024). Growth in net patient revenue per discharge during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily resulted from an increase in reimbursement rates partially offset by change higher revenue reserves related to bad debt. Revenue reserves related to bad debt as a percentage of *Net operating revenues* increased during the three months ended June 30, 2024 to 2.9% from 1.9% during the three months ended June 30, 2023 primarily due to an increase in medical necessity claim review audits and the reversal of Supplemental Medical Review Contractor audit reserves in the three months ended June 30, 2023.



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Growth in revenues, discharges, and net patient mix. revenue per discharge during the six months ended June 30, 2024 were impacted primarily by the same factors as discussed above for the second quarter of 2024. Discharge growth included a 5.5% increase in same-store discharges. Discharge growth from new stores during the six months ended June 30, 2024 compared to the same period of 2023 also resulted from our joint ventures in Knoxville, Tennessee (March 2023) and Owasso, Oklahoma (March 2023).

The increase in outpatient and other revenue during the three and six months ended March 31, 2024 June 30, 2024 included an increase of $6.9 million $10.3 million and $17.2 million, respectively, in provider tax revenues (offset by a $1.9 million an increase of $5.4 million and $7.3 million, respectively, in provider tax expenses included in *Other operating expenses*).

Salaries and Benefits

*Salaries and benefits* increased during the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods of 2023 primarily due to salary and benefit cost increases for our employees and increased patient volumes, including an increase in the number of full-time equivalents as a result of our development activities. *Salaries and benefits*decreased increased as a percent of *Net operating revenues* during the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods of 2023 primarily due to the increase in revenue reserves discussed above partially offset by the decreases in both contract labor and sign-on and shift bonuses. In order to meet our clinical staffing needs, we have continued to utilize third-party agencies and to pay sign-on and shift bonuses to our employees. While the costs associated with these actions have declined compared to the prior year period, future costs will be affected by labor market conditions and other factors.

Other Operating Expenses

*Other operating expenses* increased in terms of dollars and as a percent of *Net operating revenues* during the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods of 2023 primarily due to increased provider taxes and higher costs resulting from our development activities, and activities. *Other operating expenses* during the six months ended June 30, 2024 included a $10.4 million impairment charge related to the closure of our joint venture inpatient rehabilitation hospital in Eau Claire, Wisconsin. In January 2024, we received notice that our joint venture partner intended to close its acute-care hospital in which our joint venture inpatient rehabilitation hospital is was located. We closed that joint venture hospital in February 2024 and incurred a one-time impairment charge of $10.4 million. The impact to *Net income attributable to Encompass Health* during the three six months ended March 31, 2024 June 30, 2024 resulting from the impairment was $1.8 million after reductions for *Net income attributable to noncontrolling interests* of $7.3 million and the *Provision for income tax expense* of $1.3 million.

General and Administrative Expenses

*General and administrative expenses* increased decreased in terms of dollars and as a percent of *Net operating revenues* during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily due to higher volumes and lower incentive compensation costs.

*General and administrative expenses* increased in terms of dollars during the six months ended June 30, 2024 compared to the same period of 2023 primarily due to higher salaries, benefits, and software expenses partially offset by lower incentive compensation costs. *General and administrative expenses* decreased as a percent of *Net operating revenues* during the six months ended June 30, 2024 compared to the same period of 2023 primarily due to higher volumes.

Depreciation and Amortization

*Depreciation and amortization* increased during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 due to our capital investments.*Depreciation and amortization* during the three and six months ended June 30, 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.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations increased during the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods of 2023 primarily due to the increase in *Net operating revenues* as discussed above.

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Provision for Income Tax Expense

Our *Provision for income tax expense* increased during the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods of 2023 primarily due to higher *Income from continuing operations before income tax expense.*

We currently estimate our cash payments for income taxes to be approximately $150 million to $170 million, net of refunds, for 2024. These payments are expected to primarily result from federal and state income tax expenses based on estimates of taxable income for 2024.

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In certain jurisdictions, we do not expect to generate sufficient income to use all of the available state net operating losses and 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 7, *Income Taxes*, to the condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report and Note 16, *Income Taxes*, to the consolidated financial statements accompanying the 2023 Form 10-K.

Net Income Attributable to Noncontrolling Interests

The increase in *Net income attributable to noncontrolling interests* during the three months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 resulted from increased profitability from certain existing joint venture hospitals. The increase in *Net income attributable to noncontrolling interests* during the six months ended June 30, 2024 compared to the same period of 2023 resulted from increased profitability from certain existing joint venture hospitals mostly partially offset by the impact from the impairment related to the closure of our joint venture hospital in Eau Claire, Wisconsin in February 2024, as discussed above.

**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, on July 15, 2024, we issued notice for redemption of $150 million of the outstanding principal balance of our 5.75% Senior Notes due 2025 (the “2025 Notes”). The associated redemption date will be August 15, 2024, and the redemption price will be 100.0% of par, plus accrued and unpaid interest pursuant to the terms of the 2025 Notes. We plan to use cash on hand to fund the redemption. As a result of this redemption, we expect to record an approximate $0.4 million loss on early extinguishment of debt in the third quarter of 2024.

We have been disciplined in creating a capital structure that is flexible with no significant debt maturities in 2024. 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.

For additional information, see Note 3, *Long-term Debt*, to the accompanying condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report, and Note 10, *Long-term Debt,* to the consolidated financial statements accompanying the 2023 Form 10-K.



*Current Liquidity*

As of March 31, 2024 June 30, 2024, we had $134.4 million $154.4 million in *Cash and cash equivalents*. This amount excludes $38.3 $27.7 million in *Restricted cash* and $113.0 million $117.3 million of restricted marketable securities ($35.8 37.4 million included in *Other current assets* and $77.2 million $79.9 million included in *Other long-term assets* in our condensed 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 consolidated financial statements accompanying the 2023 Form 10-K.

In addition to *Cash and cash equivalents*, as of March 31, 2024 June 30, 2024, we had approximately $964 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 March 31, 2024 June 30, 2024, 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 the trailing four quarters and the interest rate in effect under our credit agreement during the three-month period ended March 31, 2024 June 30, 2024, if we had drawn on the first day and maintained the maximum amount of outstanding draws under our revolving credit facility for that entire period, we would still be in compliance with the maximum leverage ratio and minimum interest coverage ratio requirements.

Effective July 1, 2024, we expanded our existing joint venture with Piedmont Healthcare (“Piedmont”), which we control, by contributing the assets and operations of our previously wholly-owned 70-bed hospital in Augusta, Georgia. Piedmont contributed approximately $90 million on July 1, 2024, which indirectly resulted in Piedmont obtaining a 50% ownership interest in the hospital. For additional information, see Note 1, *Basis of Presentation,* “Noncontrolling Interests in Consolidated Affiliates,” to the accompanying condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report.

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 March 31, 2024 June 30, 2024.

For a discussion of risks and uncertainties facing us see Item 1A, *Risk Factors,* under Part II, *Other Information*, of this report and Item 1A, *Risk Factors*, of the 2023 Form 10-K.

*Sources and Uses of Cash*

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

| | Three Months Ended March 31, | Six Months Ended June 30, | | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| Net cash provided by operating activities | | | | |
| Net cash used in investing activities | | | | |
| Net cash used in financing activities | | | | |
| Increase in cash, cash equivalents, and restricted cash | | | | |

*Operating activities*. The increase in *Net cash provided by operating activities* for the three six months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily resulted from an increase in *Net income* which was driven by growth in *Net operating revenues*.

*Investing activities*. The increase in *Net cash used in investing activities* during the three six months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily resulted from increased *Purchases of property, equipment, and intangible assets*.

*Financing activities*. The decrease in *Net cash used in financing activities* during the three six months ended March 31, 2024 June 30, 2024 compared to the same period of 2023 primarily resulted from lower net debt payments on partially offset by higher *Repurchases of common stock, including fees and expenses*. For additional information related to our revolving credit facility and distributions paid stock repurchases, see "*Authorizations for Returning Capital to noncontrolling interests of consolidated affiliates. Stakeholders"* section below.

*Contractual Obligations*

Our consolidated contractual obligations as of March 31, 2024 June 30, 2024 are as follows (in millions):

| | Total | Current | Long-term | Total | Current | Long-term |
|---|---|---|---|---|---|---|
| Long-term debt obligations: | Long-term debt obligations: | | | Long-term debt obligations: | | |
| 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) | | | | | | |
| Finance lease obligations (c) | | | | | | |
| Operating lease obligations (d) | | | | | | |
| Purchase obligations (e) | | | | | | |
| Total | | | | | | |

(a) Included in long-term debt are amounts owed on our bonds payable and other notes payable. These borrowings are further explained in Note 3, *Long-term Debt*, accompanying the condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report, and Note 10, *Long-term Debt,* to the consolidated financial statements accompanying the 2023 Form 10-K.

(b) Interest on our fixed rate debt is presented using the stated interest rate. Interest pertaining to our bonds is included to their respective ultimate maturity dates. Interest related to finance lease obligations is excluded from this line.



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 condensed consolidated statements of comprehensive income.

(c) Amounts include interest portion of future minimum finance lease payments.

(d) We lease approximately 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 consolidated financial statements accompanying the 2023 Form 10-K.

(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 contract services. Purchase obligations are not recognized in our condensed consolidated balance sheet.

Our capital expenditures include costs associated with our hospital renovation program, *de novo* projects, capacity expansions, technology initiatives, and building and equipment upgrades and purchases. During the three six months ended March 31, 2024 June 30, 2024, we made capital expenditures of approximately $139 million $296 million for property, equipment, and intangible assets. During 2024, we expect to spend approximately $580 million to $610 million for capital expenditures using cash on hand and borrowings under our revolving credit facility. Approximately $185 million to $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 2023, February 2024, and February May 2024, our board of directors declared cash dividends of $0.15 per share that were paid in January 2024, and April 2024, and July 2024, respectively. On July 24, 2024, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.17 per share, payable on October 15, 2024 to stockholders of record on October 1, 2024. 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.

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 Notes 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 3, *Long-term Debt*, to the accompanying condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report, and Note 10, *Long-term Debt*, to the consolidated financial statements accompanying the 2023 Form 10-K.

On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to $250 million. As of March 31, 2024 June 30, 2024, approximately $198 million $181 million remained under this authorization. On July 24, 2024, our board of directors approved resetting the aggregate common stock repurchase authorization to $500 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. During the six months ended June 30, 2024, we repurchased 0.2 million shares of our common stock in the open market for $16.8 million under this repurchase authorization using cash on hand. Future repurchases under this authorization generally are expected to be funded using a combination of cash on hand and availability under our $1 billion revolving credit facility. For additional information, see Part II, Item 2, *Unregistered Sales of Equity Securities and Use of Proceeds,* of this report.

*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.

| | | Three Six Months Ended March 31, 2024 June 30, 2024 |
|---|---|---|
| | | (In Millions) |
| Net operating revenues | $ | 827.6 1,624.8 |
| Intercompany revenues generated from non-guarantor subsidiaries | | 24.6 51.1 |
| Total net operating revenues | $ | 852.2 1,675.9 |
| Operating expenses | $ | 715.3 1,408.6 |
| Intercompany expenses incurred in transactions with non-guarantor subsidiaries | | 9.2 18.3 |
| Total operating expenses | $ | 724.5 1,426.9 |
| Income from continuing operations | $ | 72.5 141.0 |
| Net income | $ | 71.2 138.5 |
| Net income attributable to Encompass Health | $ | 71.2 138.5 |

| | As of March 31, 2024 | As of December 31, 2023 |
|---|---|---|
| | As of June 30, 2024 | As of December 31, 2023 |
| | | (In Millions) |
| Total current assets | | |
| Property and equipment, net | | |
| Property and equipment, net | | |
| Property and equipment, net | | |
| Goodwill | | |
| Intercompany receivable due from non-guarantor subsidiaries | | |
| Other noncurrent assets | | |
| Total noncurrent assets | | |
| Total current liabilities | | |
| Total current liabilities | | |
| Total current liabilities | | |
| Long-term debt, net of current portion | | |
| Long-term debt, net of current portion | | |
| Long-term debt, net of current portion | | |
| Other noncurrent liabilities | | |
| Total noncurrent liabilities | | |

*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 consolidated financial statements accompanying the 2023 Form 10-K. 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 consolidated financial statements accompanying the 2023 Form 10-K.

Our Adjusted EBITDA was as follows (in millions):

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

| | **Three Months Ended March 31,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Net cash provided by operating activities** | | | | |
| 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 on sale of investments, excluding impairments | | | | |
| Equity in net income of nonconsolidated affiliates | | | | |
| Net income attributable to noncontrolling interests in continuing operations | | | | |
| Amortization of debt-related items | | | | |
| Distributions from nonconsolidated affiliates | | | | |
| Current portion of income tax expense | | | | |
| Change in assets and liabilities | | | | |
| Cash used in operating activities of discontinued operations | | | | |
| State regulatory change impact on noncontrolling interests | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| State regulatory change impact on noncontrolling interests | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| State regulatory change impact on noncontrolling interests | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| Change in fair market value of equity securities | | | | |
| Other | | | | |
| Other | | | | |
| Other | | | | |
| **Adjusted EBITDA** | | | | |

**Reconciliation of Net Income to Adjusted EBITDA**

| | | | | |
|---|---|---|---|---|
| | Three Months Ended March 31, | | | |
| | Three Months Ended March 31, | | | |
| | Three Months Ended March 31, | | | |
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| **Net income** | | | | |
| **Net income** | | | | |
| **Net income** | | | | |
| Loss from discontinued operations, net of tax, attributable to Encompass Health | | | | |
| Loss from discontinued operations, net of tax, attributable to Encompass Health | | | | |
| Loss 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 | | | | |
| Net income attributable to noncontrolling interests included in continuing operations | | | | |
| Provision for income tax expense | | | | |
| Provision for income tax expense | | | | |
| Provision for income tax expense | | | | |
| 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 | | | | |
| Loss on disposal or impairment of assets | | | | |
| (Gain) loss on disposal or impairment of assets | | | | |
| (Gain) loss on disposal or impairment of assets | | | | |
| Loss on disposal or impairment of assets | | | | |
| Loss on disposal or impairment of assets | | | | |
| Depreciation and amortization | | | | |
| Depreciation and amortization | | | | |
| (Gain) loss on disposal or impairment of assets | | | | |
| Depreciation and amortization | | | | |
| Stock-based compensation | | | | |
| Stock-based compensation | | | | |
| Stock-based compensation | | | | |
| Change in fair market value of equity securities | | | | |
| 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 | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| Asset impairment impact on noncontrolling interests | | | | |
| **Adjusted EBITDA** | | | | |
| **Adjusted EBITDA** | | | | |
| **Adjusted EBITDA** | | | | |

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

**Recent Accounting Pronouncements**

For information regarding recent accounting pronouncements, see Note 1, *Basis of Presentation*, to our condensed consolidated financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this report.

**Item 4. 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. Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in our Internal Control over Financial Reporting during the quarter ended March 31, 2024 June 30, 2024 that have a material effect on our Internal Control over Financial Reporting.



**PART II. OTHER INFORMATION**

**Item 1. 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 subject to regulatory and other governmental audits and investigations and are party to various legal actions, proceedings, and claims, including employment and 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 prevented 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 9, *Contingencies and Other Commitments*, to the condensed consolidated financial statements contained in Part I, Item 1, *Financial Statements (Unaudited)*, of this report and should be read in conjunction with the related disclosure previously reported in our Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Form 10-K”).

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in Part I, Item 1A, *Risk Factors*, of the 2023 Form 10-K. However, certain information in those risk factors has been updated by the discussion in the “Executive Overview—Key Challenges” section of Part I, Item 2, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, of this report, which section is incorporated by reference herein.



**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Purchases of Equity Securities**

The following table summarizes our repurchases of equity securities during the three months ended March 31, 2024 June 30, 2024:

| 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) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| January 1 through January 31, 2024 | 111,761 | $ 66.77 | — | $ 198,053,924 |
| February 1 through February 28, 2024 | 64,410 | 75.17 | — | 198,053,924 |
| March 1 through March 31, 2024 | 219 | 82.58 | — | 198,053,924 |
| Total | 176,390 | 69.86 | — | |

| 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) |
|---|---|---|---|---|
| April 1 through April 30, 2024 | 1,235 | $ 80.22 | — | $ 198,053,924 |
| May 1 through May 31, 2024 | 50,240 | 84.48 | 50,240 | 193,809,788 |
| June 1 through June 30, 2024 | 149,531 | 84.57 | 149,531 | 181,164,453 |
| Total | 201,006 | 84.52 | 199,771 | |

(1) Except as noted in the following sentence, the number of shares reported in this column represents the shares tendered by employees as payments of the tax liabilities incident to the vesting of previously awarded shares of restricted stock and the exercise price and tax liability incident to the net settlement of an option exercise. In January, 1,448 April, 959 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 The common stock repurchase authorization from $200 million to of an aggregate of $250 million. in value, approved by our board on July 24, 2018, was in effect for the period reported in this table. On July 24, 2018 July 24, 2024, our board approved resetting the aggregate common stock repurchase authorization to $250 million $500 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.

**Item 5. Other Information**

**Insider Trading Arrangements**

None.

**Item 6. Exhibits**

See the Exhibit Index immediately following the signature page of this report.



**SIGNATURE**

Pursuant to the requirements 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/ Douglas E. Coltharp

**Douglas E. Coltharp**

**Executive Vice President and Chief Financial Officer**

Date: May 1, August 6, 2024



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**EXHIBIT INDEX**

The exhibits required by Regulation S-K are set forth in the following list and are filed by attachment to this report unless otherwise noted.

| No. | Description | |
|---|---|---|
| 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). | |
| 10.1 | 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 2, 2024).+ | |
| 10.2 | 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 2, 2024).+ | |
| 22 | List of Subsidiary Guarantors. | |
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |
| 101 | Sections of the Encompass Health Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 June 30, 2024, formatted in XBRL (eXtensible Business Reporting Language), submitted in the following files: | |
| | 101.INS | XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 |
| 104 | | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

\+ Management contract or compensatory plan or arrangement.

Exhibit 22

**List of Subsidiary Guarantors**

The following direct and indirect subsidiaries of Encompass Health Corporation guarantee each series of its senior unsecured notes as of March 31, 2024 June 30, 2024.

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 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 GKBJH 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 Fitchburg, 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 Prosper, 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, West Tennessee Holdings, LLC
Encompass Health West Tennessee Holdings, Virginia Real Estate, LLC

Encompass Health West Virginia Real Estate, LLC
Encompass Health Westerville Holdings, LLC
Encompass Health Winston-Salem Holdings, LLC
Encompass Health Wisconsin Real Estate, 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 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 quarterly report on Form 10-Q 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: May 1, August 6, 2024

By: /s/ MARK J. TARR

Mark J. Tarr
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 quarterly report on Form 10-Q 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: May 1, August 6, 2024

By: /s/ DOUGLAS E. COLTHARP

Douglas E. Coltharp
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 Quarterly Report of Encompass Health Corporation on Form 10-Q for the period ended March 31, 2024June 30, 2024, 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, 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: May 1, August 6, 2024

By: /s/ MARK J. TARR

Mark J. Tarr
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.

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**Exhibit 32.2**

**CERTIFICATE OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED**
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Encompass Health Corporation on Form 10-Q for the period ended March 31, 2024June 30, 2024, 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, 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: May 1, August 6, 2024

By: /s/ DOUGLAS E. COLTHARP

Douglas E. Coltharp
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.

## DISCLAIMER







REFINITIV