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DELTA REPORT

10-Q

ENCOMPASS HEALTH CORP

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	352
CHANGES	153
DELETIONS	95
ADDITIONS	104

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023 September 30, 2023

OR

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

Commission File Number 001-10315

Encompass Health Corporation

(Exact name of Registrant as specified in its Charter)

Delaware	**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 100,230,786 100,240,796 shares of common stock outstanding, net of treasury shares, as of July 24, 2023 October 23, 2023.

TABLE OF CONTENTS

NOTE TO READERS

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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, 2022, 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 are highly concentrated in our primary line of business, particularly with respect to Medicare regulations and reimbursement.
- A pandemic, epidemic, or other widespread outbreak of an infectious disease or other public health crisis could decrease our patient volumes, pricing, and revenues, lead to staffing and supply shortages and associated cost increases, otherwise interrupt operations, or lead to increased litigation risk and, in the case of the COVID-19 pandemic, has already done so in many instances.
- Governmental actions in response to a public health crisis, such as limitations on elective procedures, vaccine mandates, shelter-in-place orders, new workplace regulations, facility closures and quarantines, could reduce volumes, lead to staffing shortages, increase staffing costs, and otherwise impair our ability to operate and provide care and, in the case of the COVID-19 pandemic, already have done so.
- 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.

- Reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our inability to obtain and retain favorable arrangements with third-party payors, could decrease our revenues and adversely affect other operating results.
- Restrictive interpretations of the regulations governing the claims that are reimbursable by Medicare could decrease our revenues and adversely affect other operating results.
- New or changing Medicare quality reporting requirements could adversely affect our operating costs or Medicare reimbursement.
- Reimbursement claims are subject to various audits from time to time and such audits may lead to assertions that we have been overpaid or have submitted improper claims, and such assertions have in the past and may in the future require us to incur additional costs to respond to requests for records and defend the validity of payments and claims and may ultimately require us to refund any amounts determined to have been overpaid.
- The use by governmental agencies and contractors of statistical sampling and extrapolation may substantially expand claims of overpayment or noncompliance.
- Delays and other 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, conveners, and referral sources 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 either or both of the federal and state 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.

- The ongoing evolution of the healthcare delivery system, including 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 data privacy and security, anti-trust, and employment practices, requires substantial time, effort and expense, and if we fail to comply, we could incur penalties and significant costs of investigating and defending asserted claims, whether meritorious or not, or be required to make significant changes to our operations.
- Our inability to maintain proper local, state and federal licensing, including compliance with the Medicare conditions of participation and provider enrollment requirements such as the CMS vaccine mandate, could decrease our revenues.
- Incidents affecting the proper operation, availability, or security of our or our vendors' or partners' information systems, including the patient information stored there, 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 other providers that may be participating in integrated delivery payment arrangements in which we do not participate, and our response to those pressures could adversely affect our revenues or other financial results.

- New or changing 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 or managed care payors could decrease our revenues.
- A pandemic, epidemic, or other widespread outbreak of an infectious disease or other public health crisis could decrease our patient volumes, pricing, and revenues, lead to staffing and supply shortages and associated cost increases, otherwise interrupt operations, or lead to increased litigation risk and, in the case of the COVID-19 pandemic, has already done so in many instances.
- Governmental actions in response to a public health crisis, such as limitations on elective procedures, vaccine mandates, shelter-in-place orders, new workplace regulations, facility closures and quarantines, could reduce volumes, lead to staffing shortages, increase staffing costs, and otherwise impair our ability to operate and provide care and, in the case of the COVID-19 pandemic, already have done so.
- 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 June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
		(In Millions, Except Per Share Data)					(In Millions, Except Per Share Data)			
Net operating revenues	Net operating revenues	$ 1,187.1	$ 1,062.5	$ 2,347.5	$ 2,121.8	Net operating revenues	$ 1,206.9	$ 1,089.5	$ 3,554.4	$ 3,211.3
Operating expenses:	Operating expenses:					Operating expenses:				
Salaries and benefits	Salaries and benefits	636.2	585.9	1,265.2	1,173.3	Salaries and benefits	658.6	605.6	1,923.8	1,778.9

Other operating expenses	Other operating expenses	172.7	169.3	350.6	328.3	Other operating expenses	183.7	172.0	534.3	500.3
Occupancy costs	Occupancy costs	14.3	13.8	28.1	29.2	Occupancy costs	14.2	12.4	42.3	41.6
Supplies	Supplies	52.0	47.3	105.8	97.1	Supplies	53.9	51.1	159.7	148.2
General and administrative expenses	General and administrative expenses	55.4	36.2	98.8	73.6	General and administrative expenses	49.8	37.9	148.6	111.5
Depreciation and amortization	Depreciation and amortization	72.6	60.5	136.5	118.2	Depreciation and amortization	67.3	62.1	203.8	180.3
Total operating expenses	Total operating expenses	1,003.2	913.0	1,985.0	1,819.7	Total operating expenses	1,027.5	941.1	3,012.5	2,760.8
Loss on early extinguishment of debt	Loss on early extinguishment of debt	—	1.1	—	1.4	Loss on early extinguishment of debt	—	—	—	1.4
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	36.3	60.4	72.7	100.0	Interest expense and amortization of debt discounts and fees	35.9	38.2	108.6	138.2
Other (income) expense	Other (income) expense	(2.7)	6.4	(6.3)	10.0	Other (income) expense	(0.5)	3.6	(6.8)	13.6
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	(0.9)	(1.0)	(1.3)	(1.9)	Equity in net income of nonconsolidated affiliates	(1.0)	(0.7)	(2.3)	(2.6)
Income from continuing operations before income tax expense	Income from continuing operations before income tax expense	151.2	82.6	297.4	192.6	Income from continuing operations before income tax expense	145.0	107.3	442.4	299.9
Provision for income tax expense	Provision for income tax expense	32.8	22.8	64.7	46.4	Provision for income tax expense	30.3	21.8	95.0	68.2
Income from continuing operations	Income from continuing operations	118.4	59.8	232.7	146.2	Income from continuing operations	114.7	85.5	347.4	231.7
(Loss) income from discontinued operations, net of tax	(Loss) income from discontinued operations, net of tax	(1.2)	11.5	(2.2)	35.2	(Loss) income from discontinued operations, net of tax	(1.3)	(18.5)	(3.5)	16.7
Net and comprehensive income	**Net and comprehensive income**	117.2	71.3	230.5	181.4	**Net and comprehensive income**	113.4	67.0	343.9	248.4
Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	Less: Net income attributable to noncontrolling interests included in continuing operations	(28.1)	(21.6)	(79.5)	(65.5)
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(0.7)	—	(1.3)	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	—	—	(1.3)
Less: Net and comprehensive income attributable to noncontrolling interests	Less: Net and comprehensive income attributable to noncontrolling interests	(25.8)	(22.6)	(51.4)	(45.2)	Less: Net and comprehensive income attributable to noncontrolling interests	(28.1)	(21.6)	(79.5)	(66.8)

Net and comprehensive income attributable to Encompass Health	**Net and comprehensive income attributable to Encompass Health**	$ 91.4	$ 48.7	$ 179.1	$ 136.2	**Net and comprehensive income attributable to Encompass Health**	$ 85.3	$ 45.4	$ 264.4	$ 181.6
Weighted average common shares outstanding:	**Weighted average common shares outstanding:**					**Weighted average common shares outstanding:**				
Basic	Basic	99.5	99.2	99.5	99.2	Basic	99.5	99.2	99.5	99.2
Diluted	Diluted	101.1	100.3	101.0	100.2	Diluted	101.4	100.5	101.1	100.3
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	$ 0.92	$ 0.38	$ 1.81	$ 1.03	Continuing operations	$ 0.86	$ 0.64	$ 2.68	$ 1.67
Discontinued operations	Discontinued operations	(0.01)	0.11	(0.02)	0.34	Discontinued operations	(0.01)	(0.19)	(0.04)	0.15
Net income	Net income	$ 0.91	$ 0.49	$ 1.79	$ 1.37	Net income	$ 0.85	$ 0.45	$ 2.64	$ 1.82
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	$ 0.91	$ 0.38	$ 1.79	$ 1.02	Continuing operations	$ 0.85	$ 0.63	$ 2.65	$ 1.66
Discontinued operations	Discontinued operations	(0.01)	0.11	(0.02)	0.34	Discontinued operations	(0.01)	(0.18)	(0.03)	0.15
Net income	Net income	$ 0.90	$ 0.49	$ 1.77	$ 1.36	Net income	$ 0.84	$ 0.45	$ 2.62	$ 1.81
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	$ 92.6	$ 37.9	$ 181.3	$ 102.3	Income from continuing operations	$ 86.6	$ 63.9	$ 267.9	$ 166.2
(Loss) income from discontinued operations, net of tax	(Loss) income from discontinued operations, net of tax	(1.2)	10.8	(2.2)	33.9	(Loss) income from discontinued operations, net of tax	(1.3)	(18.5)	(3.5)	15.4
Net income attributable to Encompass Health	Net income attributable to Encompass Health	$ 91.4	$ 48.7	$ 179.1	$ 136.2	Net income attributable to Encompass Health	$ 85.3	$ 45.4	$ 264.4	$ 181.6

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

1

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

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
		(In Millions)			(In Millions)	
Assets	**Assets**			**Assets**		
Current assets:	**Current assets:**			**Current assets:**		
Cash and cash equivalents	Cash and cash equivalents	$ 117.5	$ 21.8	Cash and cash equivalents	$ 99.7	$ 21.8
Restricted cash	Restricted cash	36.5	31.6	Restricted cash	41.5	31.6
Accounts receivable	Accounts receivable	532.3	536.8	Accounts receivable	535.9	536.8
Other current assets	Other current assets	137.7	127.0	Other current assets	136.6	127.0
Total current assets	Total current assets	824.0	717.2	Total current assets	813.7	717.2
Property and equipment, net	Property and equipment, net	3,062.2	2,939.2	Property and equipment, net	3,186.3	2,939.2
Operating lease right-of-use assets	Operating lease right-of-use assets	206.2	212.5	Operating lease right-of-use assets	196.8	212.5
Goodwill	Goodwill	1,270.7	1,263.2	Goodwill	1,281.3	1,263.2
Intangible assets, net	Intangible assets, net	278.1	282.3	Intangible assets, net	276.4	282.3
Other long-term assets	Other long-term assets	219.7	222.1	Other long-term assets	209.8	222.1
Total assets(1)	**Total assets**(1)	$ 5,860.9	$ 5,636.5	**Total assets**(1)	$ 5,964.3	$ 5,636.5
Liabilities and Shareholders' Equity	**Liabilities and Shareholders' Equity**			**Liabilities and Shareholders' Equity**		
Current liabilities:	**Current liabilities:**			**Current liabilities:**		
Current portion of long-term debt	Current portion of long-term debt	$ 22.8	$ 25.2	Current portion of long-term debt	$ 23.9	$ 25.2
Current operating lease liabilities	Current operating lease liabilities	26.1	25.6	Current operating lease liabilities	24.9	25.6
Accounts payable	Accounts payable	155.8	132.9	Accounts payable	165.4	132.9
Accrued medical insurance		34.1	25.0			
Accrued expenses and other current liabilities	Accrued expenses and other current liabilities	416.2	367.2	Accrued expenses and other current liabilities	425.0	392.2
Total current liabilities	Total current liabilities	655.0	575.9	Total current liabilities	639.2	575.9
Long-term debt, net of current portion	Long-term debt, net of current portion	2,697.6	2,741.8	Long-term debt, net of current portion	2,692.7	2,741.8
Long-term operating lease liabilities	Long-term operating lease liabilities	192.3	199.7	Long-term operating lease liabilities	183.9	199.7
Deferred income tax liabilities	Deferred income tax liabilities	83.2	83.0	Deferred income tax liabilities	80.4	83.0
Other long-term liabilities	Other long-term liabilities	175.8	174.2	Other long-term liabilities	178.9	174.2
		3,803.9	3,774.6		3,775.1	3,774.6
Commitments and contingencies	Commitments and contingencies			Commitments and contingencies		
Redeemable noncontrolling interests	Redeemable noncontrolling interests	39.3	35.6	Redeemable noncontrolling interests	41.5	35.6
Shareholders' equity:	**Shareholders' equity:**			**Shareholders' equity:**		
Encompass Health shareholders' equity	Encompass Health shareholders' equity	1,475.3	1,310.3	Encompass Health shareholders' equity	1,560.4	1,310.3
Noncontrolling interests	Noncontrolling interests	542.4	516.0	Noncontrolling interests	587.3	516.0
Total shareholders' equity	Total shareholders' equity	2,017.7	1,826.3	Total shareholders' equity	2,147.7	1,826.3

Total liabilities(1) and shareholders' equity	Total liabilities(1) and shareholders' equity	$ 5,860.9	$ 5,636.5	Total liabilities(1) and shareholders' equity	$ 5,964.3	$ 5,636.5

(1) Our consolidated assets as of June 30, 2023 September 30, 2023 and December 31, 2022 include total assets of variable interest entities of $203.6 million $204.2 million and $207.8 million, respectively, which cannot be used by us to settle the obligations of other entities. Our consolidated liabilities as of June 30, 2023 September 30, 2023 and December 31, 2022 include total liabilities of the variable interest entities of $40.0 million $41.7 million and $47.9 million, respectively. See Note 4, *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 June 30, 2023 (In Millions) Encompass Health Common Shareholders								Three Months Ended (In Mil Encompass Health Common Share				
		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**	**Acc**
Balance at beginning of period	**Balance at beginning of period**	100.2	$ 1.2	$1,739.1	$ 188.3	$ (545.1)	$ 542.2	$1,925.7	**Balance at beginning of period**	100.2		$ 1.2	$1,755.0	$
Net income	Net income	—	—	—	91.4	—	23.6	115.0	Net income	—		—	—	
Receipt of treasury stock											Receipt of treasury stock	—	—	
Dividends declared ($0.15 per share)	Dividends declared ($0.15 per share)	—	—	—	(15.1)	—	—	(15.1)	Dividends declared ($0.15 per share)	—		—	0.4	
Stock-based compensation	Stock-based compensation	—	—	15.6	—	—	—	15.6	Stock-based compensation	—		—	13.7	
Distributions declared	Distributions declared	—	—	—	—	—	(27.5)	(27.5)	Distributions declared	—		—	—	
Capital contributions from consolidated affiliates	Capital contributions from consolidated affiliates	—	—	—	—	—	4.1	4.1	Capital contributions from consolidated affiliates	—		—	—	
Other	Other	—	—	0.3	—	(0.4)	—	(0.1)	Other	—		—	2.5	
Balance at end of period	**Balance at end of period**	100.2	$ 1.2	$1,755.0	$ 264.6	$ (545.5)	$ 542.4	$2,017.7	**Balance at end of period**	100.2		$ 1.2	$1,771.6	$

	Three Months Ended June 30, 2022 (In Millions) Encompass Health Common Shareholders	Three Months Ended (In Mi Encompass Health Common Shar

		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	A
Balance at beginning of period	**Balance at beginning of period**	99.8	$ 1.1	$2,301.1	$ 201.2	$ (529.9)	$ 474.9	$2,448.4	**Balance at beginning of period**	99.8		$ 1.1	$2,310.8	$
Net income	Net income	—	—	—	48.7	—	21.1	69.8	Net income	—		—	—	
Receipt of treasury stock		—	—	—	—	(0.1)	—	(0.1)						
Dividends declared ($0.28 per share)		—	—	—	(28.0)	—	—	(28.0)						
Dividends declared ($0.15 per share)											Dividends declared ($0.15 per share)	—	—	
Stock-based compensation	Stock-based compensation	—	—	8.8	—	—	—	8.8	Stock-based compensation	—		—	7.3	
Distributions declared	Distributions declared	—	—	—	—	—	(20.5)	(20.5)	Distributions declared	—		—	—	
Capital contributions from consolidated affiliates	Capital contributions from consolidated affiliates	—	—	—	—	—	22.8	22.8	Capital contributions from consolidated affiliates	—		—	—	
Spin off of Enhabit, Inc.											Spin off of Enhabit, Inc.	—	—	
Other	Other	—	—	0.9	—	(0.8)	—	0.1	Other	—		—	5.7	
Balance at end of period	**Balance at end of period**	99.8	$ 1.1	$2,310.8	$ 221.9	$ (530.8)	$ 498.3	$2,501.3	**Balance at end of period**	99.8		$ 1.1	$1,710.5	$

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

3

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

		Six Months Ended June 30, 2023								**Nine Months Ended**			
		(In Millions)								**(In Mi**			
		Encompass Health Common Shareholders								**Encompass Health Common Share**			
		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**	**A**
Balance at beginning of period	**Balance at beginning of period**	99.8	$ 1.1	$1,730.2	$ 115.7	$ (536.7)	$ 516.0	$1,826.3	**Balance at beginning of period**	99.8	$ 1.1	$1,730.2	$
Net income	Net income	—	—	—	179.1	—	47.1	226.2	Net income	—	—	—	
Receipt of treasury stock	Receipt of treasury stock	(0.1)	—	—	—	(7.7)	—	(7.7)	Receipt of treasury stock	(0.1)	—	—	
Dividends declared ($0.30 per share)		—	—	—	(30.2)	—	—	(30.2)					

	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Income	Treasury Stock	Noncontrolling Interests	Total		Nine Months: Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value
Dividends declared ($0.45 per share)								Dividends declared ($0.45 per share)		—	—
Stock-based compensation	—	—	23.5	—	—	—	23.5	Stock-based compensation	—	—	37.2
Distributions declared	—	—	—	—	—	(58.7)	(58.7)	Distributions declared	—	—	—
Capital contributions from consolidated affiliates	—	—	—	—	—	38.0	38.0	Capital contributions from consolidated affiliates	—	—	—
Other	0.5	0.1	1.3	—	(1.1)	—	0.3	Other	0.5	0.1	3.8
Balance at end of period	100.2	$ 1.2	$1,755.0	$ 264.6	$ (545.5)	$ 542.4	$2,017.7	**Balance at end of period**	100.2	$ 1.2	$1,771.6

	Six Months Ended June 30, 2022 (In Millions)								Nine Months Ended (In Mi		
	Encompass Health Common Shareholders								Encompass Health Common Shar		
	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
Balance at beginning of period	99.5	$ 1.1	$2,289.6	$ 141.8	$ (521.2)	$ 445.7	$2,357.0	**Balance at beginning of period**	99.5	$ 1.1	$2,289.6
Net income	—	—	—	136.2	—	41.8	178.0	Net income	—	—	—
Receipt of treasury stock	(0.1)	—	—	—	(7.7)	—	(7.7)	Receipt of treasury stock	(0.1)	—	—
Dividends declared ($0.56 per share)	—	—	—	(56.1)	—	—	(56.1)				
Dividends declared ($0.71 per share)								Dividends declared ($0.71 per share)		—	—
Stock-based compensation	—	—	16.3	—	—	—	16.3	Stock-based compensation	—	—	23.6
Distributions declared	—	—	—	—	—	(45.4)	(45.4)	Distributions declared	—	—	—
Capital contributions from consolidated affiliates	—	—	—	—	—	44.2	44.2	Capital contributions from consolidated affiliates	—	—	—
Spin off of Enhabit, Inc.								Spin off of Enhabit, Inc.		—	—
Other	0.4	—	4.9	—	(1.9)	12.0	15.0	Other	0.4	—	10.6
Balance at end of period	99.8	$ 1.1	$2,310.8	$ 221.9	$ (530.8)	$ 498.3	$2,501.3	**Balance at end of period**	99.8	$ 1.1	$1,710.5

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

4

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

		Six Months Ended June 30,			Nine Months Ended September 30,	
		2023	2022		2023	2022
		(In Millions)			(In Millions)	
Cash flows from operating activities:	**Cash flows from operating activities:**			**Cash flows from operating activities:**		
Net income	Net income	$ 230.5	$ 181.4	Net income	$ 343.9	$ 248.4
Loss (income) from discontinued operations, net of tax	Loss (income) from discontinued operations, net of tax	2.2	(35.2)	Loss (income) from discontinued operations, net of tax	3.5	(16.7)
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	136.5	118.2	Depreciation and amortization	203.8	180.3
Loss on early extinguishment of debt				Loss on early extinguishment of debt	—	1.4
Equity in net income of nonconsolidated affiliates				Equity in net income of nonconsolidated affiliates	(2.3)	(2.6)
Distributions from nonconsolidated affiliates				Distributions from nonconsolidated affiliates	0.6	3.7
Stock-based compensation				Stock-based compensation	37.2	21.1
Deferred tax benefit				Deferred tax benefit	(2.9)	(7.7)
Stock-based compensation		23.5	13.8			
Deferred tax expense (benefit)		0.3	(6.5)			
Realized loss on sale of investments				Realized loss on sale of investments	0.9	16.5
Other, net	Other, net	3.1	22.5	Other, net	10.8	9.7
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	Accounts receivable	11.5	16.4	Accounts receivable	20.7	22.4
Other assets	Other assets	(8.4)	4.9	Other assets	(4.1)	5.0
Accounts payable	Accounts payable	4.0	4.7	Accounts payable	(0.2)	(0.3)
Accrued payroll				Accrued payroll	24.1	(9.3)
Accrued interest payable				Accrued interest payable	(19.1)	(20.7)
Other liabilities	Other liabilities	34.3	67.4	Other liabilities	37.5	26.4
Net cash (used in) provided by operating activities of discontinued operations	Net cash (used in) provided by operating activities of discontinued operations	(2.9)	75.9	Net cash (used in) provided by operating activities of discontinued operations	(4.6)	56.0
Total adjustments	Total adjustments	201.9	317.3	Total adjustments	302.4	301.9

Net cash provided by operating activities	**Net cash provided by operating activities**	434.6	463.5	**Net cash provided by operating activities**	649.8	533.6
Cash flows from investing activities:	**Cash flows from investing activities:**			**Cash flows from investing activities:**		
Purchases of property and equipment	Purchases of property and equipment	(213.8)	(225.6)	Purchases of property and equipment	(360.5)	(374.9)
Purchase of restricted investments				Purchase of restricted investments	(21.1)	(25.1)
Other, net	Other, net	(18.7)	(17.2)	Other, net	(13.1)	(17.0)
Net cash used in investing activities of discontinued operations	Net cash used in investing activities of discontinued operations	—	(3.5)	Net cash used in investing activities of discontinued operations	—	(3.6)
Net cash used in investing activities	**Net cash used in investing activities**	(232.5)	(246.3)	**Net cash used in investing activities**	(394.7)	(420.6)
Cash flows from financing activities:	**Cash flows from financing activities:**			**Cash flows from financing activities:**		
Principal borrowings on notes	Principal borrowings on notes	20.0	—	Principal borrowings on notes	20.0	—
Principal payments on debt, including pre-payments	Principal payments on debt, including pre-payments	(5.7)	(344.8)	Principal payments on debt, including pre-payments	(6.3)	(345.3)
Borrowings on revolving credit facility	Borrowings on revolving credit facility	60.0	130.0	Borrowings on revolving credit facility	60.0	180.0
Payments on revolving credit facility	Payments on revolving credit facility	(115.0)	(330.0)	Payments on revolving credit facility	(115.0)	(340.0)
Principal payments under finance lease obligations	Principal payments under finance lease obligations	(9.5)	(9.4)	Principal payments under finance lease obligations	(35.9)	(14.3)
Debt amendment costs	Debt amendment costs	(0.1)	(21.6)	Debt amendment costs	(0.1)	(21.6)
Taxes paid on behalf of employees for shares withheld	Taxes paid on behalf of employees for shares withheld	(7.7)	(7.2)	Taxes paid on behalf of employees for shares withheld	(8.1)	(7.2)
Contributions from noncontrolling interests of consolidated affiliates	Contributions from noncontrolling interests of consolidated affiliates	46.3	35.3	Contributions from noncontrolling interests of consolidated affiliates	54.7	55.1
Dividends paid on common stock	Dividends paid on common stock	(30.5)	(56.3)	Dividends paid on common stock	(45.5)	(84.1)
Distributions paid to noncontrolling interests of consolidated affiliates	Distributions paid to noncontrolling interests of consolidated affiliates	(59.4)	(45.9)	Distributions paid to noncontrolling interests of consolidated affiliates	(91.9)	(68.2)
Other, net	Other, net	0.1	(0.1)	Other, net	0.8	0.3
Net cash provided by financing activities of discontinued operations	Net cash provided by financing activities of discontinued operations	—	569.8	Net cash provided by financing activities of discontinued operations	—	516.1

Net cash used in financing activities	**Net cash used in financing activities**	(101.5)	(80.2)	**Net cash used in financing activities** (167.3)	(129.2)
Increase in cash, cash equivalents, and restricted cash		100.6	137.0		
Cash, cash equivalents, and restricted cash at beginning of period		53.4	120.3		
Cash, cash equivalents, and restricted cash at end of period		$ 154.0	$ 257.3		

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)

		Nine Months Ended September 30,	
		2023	2022
		(In Millions)	
Increase (decrease) in cash, cash equivalents, and restricted cash	**Increase (decrease) in cash, cash equivalents, and restricted cash**	$ 87.8	$ (16.2)
Cash, cash equivalents, and restricted cash at beginning of period	**Cash, cash equivalents, and restricted cash at beginning of period**	53.4	120.3
Cash, cash equivalents, and restricted cash at end of period	**Cash, cash equivalents, and restricted cash at end of period**	$141.2	$104.1

		Six Months Ended June 30,				
		2023	2022			
		(In Millions)				
Reconciliation of Cash, Cash Equivalents, and Restricted Cash	**Reconciliation of Cash, Cash Equivalents, and Restricted Cash**			**Reconciliation of Cash, Cash Equivalents, and Restricted Cash**		
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	$ 21.8	$ 49.4	Cash and cash equivalents at beginning of period	$ 21.8	$ 49.4
Restricted cash at beginning of period	Restricted cash at beginning of period	31.6	62.5	Restricted cash at beginning of period	31.6	62.5

Restricted cash included in other long-term assets at beginning of period	Restricted cash included in other long-term assets at beginning of period	—	0.4	Restricted cash included in other long-term assets at beginning of period	—	0.4
Cash, cash equivalents, and restricted cash in discontinued operations at beginning of period	Cash, cash equivalents, and restricted cash in discontinued operations at beginning of period	—	8.0	Cash, cash equivalents, and restricted cash in discontinued operations at beginning of period	—	8.0
Cash, cash equivalents, and restricted cash at beginning of period	Cash, cash equivalents, and restricted cash at beginning of period	$ 53.4	$120.3	Cash, cash equivalents, and restricted cash at beginning of period	$ 53.4	$120.3
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	$117.5	$136.3	Cash and cash equivalents at end of period	$ 99.7	$ 59.8
Restricted cash at end of period	Restricted cash at end of period	36.5	67.4	Restricted cash at end of period	41.5	44.3
Cash, cash equivalents, and restricted cash in discontinued operations at end of period		—	53.6			
Cash, cash equivalents, and restricted cash at end of period	Cash, cash equivalents, and restricted cash at end of period	$154.0	$257.3	Cash, cash equivalents, and restricted cash at end of period	$141.2	$104.1
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:**		
Property and equipment additions through finance leases				Property and equipment additions through finance leases	$ 21.4	$ —
Accrued purchases of property and equipment	Accrued purchases of property and equipment	$ 18.5	$ (4.2)	Accrued purchases of property and equipment	32.2	(1.2)
Operating lease additions and adjustments	Operating lease additions and adjustments	7.6	16.2	Operating lease additions and adjustments	7.9	23.1
Joint venture contributions	Joint venture contributions	18.0	1.6	Joint venture contributions	32.2	—

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed 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 the eastern half of the United States and Texas. As of June 30, 2023 September 30, 2023, we operate 158 159 inpatient rehabilitation hospitals. We are the sole owner of 97 96 of these hospitals. We retain 50.0% to 97.5% ownership in the remaining 61 63 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 27, 2023 (the "2022 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, 2022 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.

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 June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Medicare	Medicare	$ 763.2	$ 690.7	$ 1,520.7	$ 1,380.8	Medicare	$ 786.5	$ 711.2	$ 2,306.1	$ 2,091.7
Medicare Advantage	Medicare Advantage	198.1	160.7	384.5	316.7	Medicare Advantage	191.7	163.6	576.6	480.3
Managed care	Managed care	133.5	123.3	260.6	254.8	Managed care	135.4	126.1	396.4	381.0
Medicaid	Medicaid	48.8	47.5	96.2	89.3	Medicaid	49.2	47.7	145.6	137.0
Other third-party payors	Other third-party payors	10.6	9.4	21.5	19.4	Other third-party payors	10.6	9.5	32.2	29.0
Workers' compensation	Workers' compensation	7.3	5.9	13.0	12.0	Workers' compensation	6.6	6.9	19.6	18.9
Patients	Patients	4.0	4.1	6.6	9.2	Patients	3.8	3.5	10.4	12.8
Other income	Other income	21.6	20.9	44.4	39.6	Other income	23.1	21.0	67.5	60.6
Total	Total	$ 1,187.1	$ 1,062.5	$ 2,347.5	$ 2,121.8	Total	$ 1,206.9	$ 1,089.5	$ 3,554.4	$ 3,211.3

See Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements accompanying the 2022 Form 10-K for our policy related to *Net operating revenues*.

Noncontrolling Interests in Consolidated Affiliates—

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 nine months ended June 30, 2023 September 30, 2023.

Recently Adopted Accounting Pronouncements—

We do not believe any 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.

Encompass Health Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

2. Spin Off of Home Health and Hospice Business

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

In accordance with applicable accounting guidance, the historical results of Enhabit have been presented as discontinued operations and, as such, have been excluded from continuing operations for the three and six nine months ended June 30, 2022 September 30, 2022. Our presentation of discontinued operations excludes any allocation of general corporate and overhead costs as well as interest expense. Prior to July 1, 2022, we operated under two reporting segments. We now operate under a single reporting segment. In anticipation of the Spin Off, Enhabit transferred the "Encompass" trade name (net book value of $104.2 million) to us during the second quarter of 2022.

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

We will provide transition services to Enhabit predominately consisting of certain finance, information technology, human resources, employee benefits and other administrative services for a period of up to two years after the Spin Off. For the three and six nine months ended June 30, 2023 September 30, 2023, income related to these transition services of $0.9 was $0.7 million and $1.9 million $2.6 million, respectively, respectively. For the three and nine months ended September 30, 2022, income related to these transition services was $1.1 million. These amounts were reflected as reductions to *General and administrative expenses* in our condensed consolidated statements of comprehensive income.

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

		Three Months Ended June 30, 2022	Six Months Ended June 30, 2022		Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Net operating revenue	Net operating revenue	$ 268.0	$ 542.3	Net operating revenue	$ —	$ 542.3
Operating expenses:	Operating expenses:			Operating expenses:		
Salaries and benefits	Salaries and benefits	187.8	376.4	Salaries and benefits	—	376.4
Other operating expenses	Other operating expenses	24.5	47.6	Other operating expenses	—	47.6
Occupancy costs	Occupancy costs	5.5	11.0	Occupancy costs	—	11.0
Supplies	Supplies	5.4	11.7	Supplies	—	11.7
General and administrative expenses	General and administrative expenses	24.0	35.0	General and administrative expenses	19.8	54.8
Depreciation and amortization	Depreciation and amortization	8.2	16.7	Depreciation and amortization	—	16.7
Total operating expenses	Total operating expenses	255.4	498.4	Total operating expenses	19.8	518.2
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	—	0.1	Interest expense and amortization of debt discounts and fees	—	0.1
Income from discontinued operations before income taxes		12.6	43.8			
Provision for income tax expense		1.1	8.6			
Income from discontinued operations, net of tax		11.5	35.2			

(Loss) income from discontinued operations before income taxes							(Loss) income from discontinued operations before income taxes	(19.8)	24.0
Provision for income tax (benefit) expense							Provision for income tax (benefit) expense	(1.3)	7.3
(Loss) income from discontinued operations, net of tax							(Loss) income from discontinued operations, net of tax	(18.5)	16.7
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	(0.7)	(1.3)	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(1.3)			
Net income attributable to Encompass Health included in discontinued operations		$ 10.8	$ 33.9						
Net (loss) income attributable to Encompass Health included in discontinued operations							Net (loss) income attributable to Encompass Health included in discontinued operations	$ (18.5)	$ 15.4

Transaction costs of $22.9 $19.8 million and $32.5 $52.3 million incurred during the three and six nine months ended June 30, 2022 September 30, 2022, respectively, are included in general and administrative expenses in the table above and in *(Loss) income from discontinued operations, net of tax*, in the condensed consolidated statements of comprehensive income. These charges primarily relate to third-party advisory, consulting, legal and professional services, that are associated with the Spin Off.

See Note 2, *Spin Off of Home Health and Hospice Business*, to the consolidated financial statements accompanying the 2022 Form 10‑K for additional information.

3. Business Combinations

During the six nine months ended June 30, 2023 September 30, 2023, we completed the following acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

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

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from the respective dates of acquisition. Assets acquired were recorded at their estimated fair values as of the acquisition date. Estimated fair values were based on various valuation methodologies including: an income approach using discounted cash flow techniques for the noncompete intangible assets; an income approach utilizing the relief from royalty method for the trade name intangible assets; and an income approach utilizing the excess earnings method for the certificate certificates of need intangible asset. assets. The aforementioned income methods utilize management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital. The excess of the fair value of the consideration conveyed over the fair value of the assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospitals' historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. The goodwill recorded as a result of these transactions that is deductible for federal income tax purposes is $2.1 million $7.4 million.

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

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

Property and equipment, net	$	0.1
Identifiable intangible assets:		
Noncompete agreements (useful lives of 3 years)		0.5
Trade names (useful lives of 20 years)		1.8
Certificate Certificates of need (useful life lives of 20 years)		7.0 10.6
Goodwill		7.5 18.1
Total assets acquired	$	16.9 31.1

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

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Fair value of assets acquired	Fair value of assets acquired	$ —	$ —	$ 9.4	$ —	Fair value of assets acquired	$ 3.6	$ 0.3	$ 13.0	$ 0.3
Goodwill	Goodwill	—	—	7.5	—	Goodwill	10.6	10.4	18.1	10.4
Fair value of noncontrolling interest owned by joint venture partner	Fair value of noncontrolling interest owned by joint venture partner	—	—	(16.9)	—	Fair value of noncontrolling interest owned by joint venture partner	(14.2)	(10.7)	(31.1)	(10.7)
Net cash paid for acquisitions	Net cash paid for acquisitions	$ —	$ —	$ —	$ —	Net cash paid for acquisitions	$ —	$ —	$ —	$ —

Pro Forma Results of Operations

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

	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to June 30, 2023	$ —	$ —
Combined entity: Supplemental pro forma from 04/01/23-6/30/23	1,187.1	91.4
Combined entity: Supplemental pro forma from 04/01/22-6/30/22	1,067.1	48.9
Combined entity: Supplemental pro forma from 01/01/23-6/30/23	2,350.8	179.3
Combined entity: Supplemental pro forma from 01/01/22-6/30/22	2,131.0	136.7

	Net Operating Revenues	Net Income Attributable to Encompass Health
Acquired entities only: Actual from acquisition date to September 30, 2023	$ —	$ —
Combined entity: Supplemental pro forma from 07/01/23-09/30/23	1,209.0	85.7

Combined entity: Supplemental pro forma from 07/01/22-09/30/22	1,097.2	46.3
Combined entity: Supplemental pro forma from 01/01/23-09/30/23	3,566.0	266.3
Combined entity: Supplemental pro forma from 01/01/22-09/30/22	3,234.4	184.3

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of our 2022 reporting period. See Note 3, *Business Combinations*, to the consolidated financial statements accompanying the 2022 Form 10-K for information regarding acquisitions completed in 2022.

4. Variable Interest Entities

As of June 30, 2023 September 30, 2023 and December 31, 2022, 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 June 30, 2023 September 30, 2023. Through partnership and management agreements with or governing each of these entities, we manage all of these entities and handle all day-to-day operating decisions. Accordingly, we have the decision making power over the activities that most significantly impact the economic performance of our VIEs and an obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections, and creation and maintenance of medical records. The terms of the agreements governing each of our VIEs prohibit us from using the assets of each VIE to satisfy the obligations of other entities.

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):

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Assets	**Assets**			**Assets**		
Current assets:	Current assets:			Current assets:		
Cash and cash equivalents	Cash and cash equivalents	$ 0.4	$ 0.2	Cash and cash equivalents	$ 0.8	$ 0.2
Accounts receivable	Accounts receivable	32.8	34.0	Accounts receivable	32.6	34.0
Other current assets	Other current assets	7.9	6.7	Other current assets	7.5	6.7
Total current assets	Total current assets	41.1	40.9	Total current assets	40.9	40.9
Property and equipment, net	Property and equipment, net	125.2	129.0	Property and equipment, net	126.3	129.0
Operating lease right-of-use assets	Operating lease right-of-use assets	1.4	1.7	Operating lease right-of-use assets	1.3	1.7
Goodwill	Goodwill	15.9	15.9	Goodwill	15.9	15.9
Intangible assets, net	Intangible assets, net	1.3	1.5	Intangible assets, net	1.2	1.5
Other long-term assets	Other long-term assets	18.7	18.8	Other long-term assets	18.6	18.8
Total assets	Total assets	$ 203.6	$ 207.8	Total assets	$ 204.2	$ 207.8
Liabilities	**Liabilities**			**Liabilities**		
Current liabilities:	Current liabilities:			Current liabilities:		
Current portion of long-term debt	Current portion of long-term debt	$ 0.8	$ 0.8	Current portion of long-term debt	$ 0.9	$ 0.8
Current operating lease liabilities	Current operating lease liabilities	—	0.4	Current operating lease liabilities	—	0.4

Accounts payable	Accounts payable	5.9	7.0	Accounts payable	7.5	7.0
Accrued expenses and other current liabilities	Accrued expenses and other current liabilities	17.9	23.9	Accrued expenses and other current liabilities	18.2	23.9
Total current liabilities	Total current liabilities	24.6	32.1	Total current liabilities	26.6	32.1
Long-term debt, net of current portion	Long-term debt, net of current portion	14.1	14.5	Long-term debt, net of current portion	13.8	14.5
Long-term operating lease liabilities	Long-term operating lease liabilities	1.3	1.3	Long-term operating lease liabilities	1.3	1.3
Total liabilities	Total liabilities	$ 40.0	$ 47.9	Total liabilities	$ 41.7	$ 47.9

5. Long-term Debt

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

		June 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022
Credit Agreement —	Credit Agreement —			Credit Agreement —		
Advances under revolving credit facility	Advances under revolving credit facility	$ —	$ 55.0	Advances under revolving credit facility	$ —	$ 55.0
Bonds payable—	Bonds payable—			Bonds payable—		
5.75% Senior Notes due 2025	5.75% Senior Notes due 2025	348.1	347.7	5.75% Senior Notes due 2025	348.3	347.7
4.50% Senior Notes due 2028	4.50% Senior Notes due 2028	783.4	781.8	4.50% Senior Notes due 2028	784.2	781.8
4.75% Senior Notes due 2030	4.75% Senior Notes due 2030	780.2	779.0	4.75% Senior Notes due 2030	780.9	779.0
4.625% Senior Notes due 2031	4.625% Senior Notes due 2031	391.0	390.6	4.625% Senior Notes due 2031	391.3	390.6
Other notes payable	Other notes payable	67.4	53.1	Other notes payable	66.6	53.1
Finance lease obligations	Finance lease obligations	350.3	359.8	Finance lease obligations	345.3	359.8
		2,720.4	2,767.0		2,716.6	2,767.0
Less: Current portion	Less: Current portion	(22.8)	(25.2)	Less: Current portion	(23.9)	(25.2)
Long-term debt, net of current portion	Long-term debt, net of current portion	$ 2,697.6	$ 2,741.8	Long-term debt, net of current portion	$ 2,692.7	$ 2,741.8

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

	Face Amount	Net Amount	Face Amount	Net Amount

July 1 through December 31, 2023		$ 10.7	$ 10.7			
October 1 through December 31, 2023				October 1 through December 31, 2023	$ 5.5	$ 5.5
2024	2024	40.4	40.4	2024	40.4	40.4
2025	2025	382.7	380.8	2025	382.3	380.6
2026	2026	29.2	29.2	2026	29.2	29.2
2027	2027	43.2	43.2	2027	43.2	43.2
2028	2028	831.7	815.1	2028	831.7	815.9
Thereafter	Thereafter	1,429.8	1,401.0	Thereafter	1,429.8	1,401.8
Total	Total	$ 2,767.7	$ 2,720.4	Total	$ 2,762.1	$ 2,716.6

In September 2023, we purchased our Treasure Coast hospital real estate in Vero Beach, Florida from Ocean Health Associates, LTD. ("Ocean Health") for $21.4 million. Prior to the purchase, we leased the real estate from Ocean Health. As a result of our determination in the third quarter of 2023, the lease classification was changed from an operating lease to a financing lease. The $21.4 million payment is included in *Principal payments under finance lease obligations* on the condensed consolidated statement of cash flows for the nine months ended September 30, 2023.

On December 9, 2021, we announced the commencement of a consent solicitation of holders of our 5.75% Senior Notes due 2025, 4.50% Senior Notes due 2028 (the "2028 Notes"), 4.75% Senior Notes due 2030 (the "2030 Notes"), and 4.625% Senior Notes due 2031 (the "2031 Notes" and collectively the "Senior Notes") for the adoption of certain amendments to an indenture (the "Base Indenture") dated as of December 1, 2009, as supplemented by each Senior Notes' respective supplemental indenture (together with the Base Indenture, the "Indenture"), which provided us with greater flexibility in effecting the Spin Off discussed in Note 2, *Spin Off of Home Health and Hospice Business*. Each Indenture contains restrictive covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to make certain asset dispositions, investments, and distributions to holders of our capital stock. The amendments to the Indentures permitted us, subject to the leverage ratio condition set forth below, to distribute to our equity holders in one or more transactions (a "Distribution") some or all of the common stock of a subsidiary that holds substantially all of the assets of our home health and hospice business. We were permitted to make any such distribution so long as the Leverage Ratio (as defined in each Indenture) was no more than 3.5 to 1.0 on a pro forma basis after giving effect thereto. The amendments also reduced the capacity under our restricted payments builder basket under each existing Indenture for the 2028 Notes, 2030 Notes, and 2031 Notes by $200 million and amended the definition of "Consolidated Net Income" to allow us to exclude from Consolidated Net Income (a component of the Leverage Ratio) any fees, expenses or charges related to any Distribution and the solicitation of consents

from the holders of the Senior Notes. In December 2021 and January 2022, we received the requisite consents for the adoption of these amendments. Under the terms of the amendments, we agreed to pay the holders of the Senior Notes a total of $40.5 million, excluding fees. We paid $20.0 million and $20.5 million in January and June 2022, respectively.

In March 2022, we redeemed the remaining $100 million in outstanding principal amount of the 5.125% Senior Notes due 2023 (the "2023 Notes") using capacity under our revolving credit facility. Pursuant to the terms of the 2023 Notes, this

12

Encompass Health Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

optional redemption was made at a price of par. As a result of this redemption, we recorded a $0.3 million *Loss on early extinguishment of debt* during the three months ended March 31, 2022.

In June 2022, Enhabit distributed $566.6 million to Encompass Health who used it to fully repay both the $250 million outstanding balance of the Encompass Health revolving credit facility and approximately $236 million of the Encompass Health term loan. As a result of this repayment, we recorded a $1.1 million *Loss on early extinguishment of debt* during the three months ended June 30, 2022.

6. Redeemable Noncontrolling Interests

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

	Six Months Ended June 30,	Nine Months Ended September 30,

		2023	2022		2023	2022
Balance at beginning of period	Balance at beginning of period	$ 35.6	$ 42.2	Balance at beginning of period	$ 35.6	$ 42.2
Net income attributable to noncontrolling interests	Net income attributable to noncontrolling interests	4.3	3.4	Net income attributable to noncontrolling interests	6.2	5.0
Distributions declared	Distributions declared	(0.6)	(2.3)	Distributions declared	(0.3)	(4.3)
Spin off of Enhabit, Inc.				Spin off of Enhabit, Inc.	—	(5.1)
Balance at end of period	Balance at end of period	$ 39.3	$ 43.3	Balance at end of period	$ 41.5	$ 37.8

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

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Net income attributable to nonredeemable noncontrolling interests	Net income attributable to nonredeemable noncontrolling interests	$ 23.6	$ 21.1	$ 47.1	$ 41.8	Net income attributable to nonredeemable noncontrolling interests	$ 26.2	$ 20.0	$ 73.3	$ 61.8
Net income attributable to redeemable noncontrolling interests	Net income attributable to redeemable noncontrolling interests	2.2	1.5	4.3	3.4	Net income attributable to redeemable noncontrolling interests	1.9	1.6	6.2	5.0
Net income attributable to noncontrolling interests	Net income attributable to noncontrolling interests	$ 25.8	$ 22.6	$ 51.4	$ 45.2	Net income attributable to noncontrolling interests	$ 28.1	$ 21.6	$ 79.5	$ 66.8

See also Note 7, *Fair Value Measurements*.

7. 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
<u>As of June 30, 2023</u>	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 September 30, 2023							**As of September 30, 2023**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Valuation Technique (1)**
Equity securities (2)	Equity securities (2)	$ 114.3	$ 3.8	$ 110.5	$ —	M	Equity securities (2)	$ 122.0	$ 3.7	$ 118.3	$ —	M
Redeemable noncontrolling interests	Redeemable noncontrolling interests	39.3	—	—	39.3	I	Redeemable noncontrolling interests	41.5	—	—	41.5	I
As of December 31, 2022	**As of December 31, 2022**						**As of December 31, 2022**					
Equity securities (2)	Equity securities (2)	$ 110.0	$ 3.7	$ 106.3	$ —	M	Equity securities (2)	$ 110.0	$ 3.7	$ 106.3	$ —	M
Redeemable noncontrolling interests	Redeemable noncontrolling interests	35.6	—	—	35.6	I	Redeemable noncontrolling interests	35.6	—	—	35.6	I

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

(2) As of June 30, 2023 September 30, 2023, $33.0 million $37.2 million are included in *Other current assets* and $81.3 million $84.8 million are included in *Other long-term assets* in the condensed consolidated balance sheet. As of December 31, 2022, $30.9 million are included in *Other current assets* and $79.1 million are included in *Other long-term* assets in the 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 nine months ended June 30, 2023 September 30, 2023 and 2022, 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 2022 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 June 30, 2023		**As of December 31, 2022**			**As of September 30, 2023**		**As of December 31, 2022**	
		Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**		**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Long-term debt:	Long-term debt:					Long-term debt:				
Advances under revolving credit facility	Advances under revolving credit facility	$ —	$ —	$ 55.0	$ 55.0	Advances under revolving credit facility	$ —	$ —	$ 55.0	$ 55.0
5.75% Senior Notes due 2025	5.75% Senior Notes due 2025	348.1	347.4	347.7	347.7	5.75% Senior Notes due 2025	348.3	343.7	347.7	347.7
4.50% Senior Notes due 2028	4.50% Senior Notes due 2028	783.4	745.5	781.8	726.7	4.50% Senior Notes due 2028	784.2	731.1	781.8	726.7
4.75% Senior Notes due 2030	4.75% Senior Notes due 2030	780.2	733.3	779.0	703.7	4.75% Senior Notes due 2030	780.9	708.7	779.0	703.7

4.625% Senior Notes due 2031	4.625% Senior Notes due 2031	391.0	356.0	390.6	342.2	4.625% Senior Notes due 2031	391.3	339.2	390.6	342.2
Other notes payable	Other notes payable	67.4	67.4	53.1	53.1	Other notes payable	66.6	66.6	53.1	53.1
Financial commitments:	Financial commitments:					Financial commitments:				
Letters of credit	Letters of credit	—	33.9	—	32.7	Letters of credit	—	33.7	—	32.7

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 2022 Form 10-K.

8. Share-Based Payments

During the six nine months ended June 30, 2023 September 30, 2023, we issued a total of 0.6 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, 0.3 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 two 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 2022 Form 10-K.

9. Income Taxes

Our *Provision for income tax expense* of $32.8 million $30.3 million and $64.7 million $95.0 million for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, primarily resulted from the application of our estimated effective blended federal and state income tax rate.

Our *Provision for income tax expense* of $22.8 million and $46.4 million $21.8 million for the three and six months ended June 30, 2022, respectively, September 30, 2022 primarily resulted from the application of our estimated effective blended federal and state income tax rate as well as state rate and apportionment changes offset by the release of a portion of an uncertain tax position related to the Spin Off. Our *Provision for income tax expense* of $68.2 million for the nine months ended September 30, 2022 primarily resulted from the application of our estimated effective blended federal and state income tax rate as well as the establishment of an uncertain tax position related to the Spin Off.

Encompass Health Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

10. 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,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Basic:	**Basic:**					**Basic:**				
Numerator:	*Numerator:*					*Numerator:*				
Income from continuing operations	Income from continuing operations	$ 118.4	$ 59.8	$ 232.7	$ 146.2	Income from continuing operations	$ 114.7	$ 85.5	$ 347.4	$ 231.7

Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	Less: Net income attributable to noncontrolling interests included in continuing operations	(28.1)	(21.6)	(79.5)	(65.5)
Less: Income from continuing operations allocated to participating securities	Less: Income from continuing operations allocated to participating securities	(0.6)	(0.1)	(1.2)	(0.3)	Less: Income from continuing operations allocated to participating securities	(0.6)	(0.3)	(1.8)	(0.6)
Income from continuing operations attributable to Encompass Health common shareholders	Income from continuing operations attributable to Encompass Health common shareholders	92.0	37.8	180.1	102.0	Income from continuing operations attributable to Encompass Health common shareholders	86.0	63.6	266.1	165.6
(Loss) income from discontinued operations, net of tax	(Loss) income from discontinued operations, net of tax	(1.2)	11.5	(2.2)	35.2	(Loss) income from discontinued operations, net of tax	(1.3)	(18.5)	(3.5)	16.7
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(0.7)	—	(1.3)	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	—	—	(1.3)
Less: Income from discontinued operations allocated to participating securities	Less: Income from discontinued operations allocated to participating securities	—	(0.1)	—	(0.2)	Less: Income from discontinued operations allocated to participating securities	—	—	—	(0.1)
(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(1.2)	10.7	(2.2)	33.7	(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(1.3)	(18.5)	(3.5)	15.3
Net income attributable to Encompass Health common shareholders	Net income attributable to Encompass Health common shareholders	$ 90.8	$ 48.5	$ 177.9	$ 135.7	Net income attributable to Encompass Health common shareholders	$ 84.7	$ 45.1	$ 262.6	$ 180.9
Denominator:	*Denominator:*					*Denominator:*				
Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	99.5	99.2	99.5	99.2	Basic weighted average common shares outstanding	99.5	99.2	99.5	99.2
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	$ 0.92	$ 0.38	$ 1.81	$ 1.03	Continuing operations	$ 0.86	$ 0.64	$ 2.68	$ 1.67

Discontinued operations	Discontinued operations	(0.01)	0.11	(0.02)	0.34	Discontinued operations	(0.01)	(0.19)	(0.04)	0.15
Net income	Net income	$ 0.91	$ 0.49	$ 1.79	$ 1.37	Net income	$ 0.85	$ 0.45	$ 2.64	$ 1.82
Diluted:	**Diluted:**					**Diluted:**				
Numerator:	*Numerator:*					*Numerator:*				
Income from continuing operations	Income from continuing operations	$ 118.4	$ 59.8	$ 232.7	$ 146.2	Income from continuing operations	$ 114.7	$ 85.5	$ 347.4	$ 231.7
Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	Less: Net income attributable to noncontrolling interests included in continuing operations	(28.1)	(21.6)	(79.5)	(65.5)
Income from continuing operations attributable to Encompass Health common shareholders	Income from continuing operations attributable to Encompass Health common shareholders	92.6	37.9	181.3	102.3	Income from continuing operations attributable to Encompass Health common shareholders	86.6	63.9	267.9	166.2
(Loss) income from discontinued operations, net of tax	(Loss) income from discontinued operations, net of tax	(1.2)	11.5	(2.2)	35.2	(Loss) income from discontinued operations, net of tax	(1.3)	(18.5)	(3.5)	16.7
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(0.7)	—	(1.3)	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	—	—	(1.3)
(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(1.2)	10.8	(2.2)	33.9	(Loss) income from discontinued operations attributable to Encompass Health common shareholders	(1.3)	(18.5)	(3.5)	15.4
Net income attributable to Encompass Health common shareholders	Net income attributable to Encompass Health common shareholders	$ 91.4	$ 48.7	$ 179.1	$ 136.2	Net income attributable to Encompass Health common shareholders	$ 85.3	$ 45.4	$ 264.4	$ 181.6
Denominator:	*Denominator:*					*Denominator:*				
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	101.1	100.3	101.0	100.2	Diluted weighted average common shares outstanding	101.4	100.5	101.1	100.3
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	$ 0.91	$ 0.38	$ 1.79	$ 1.02	Continuing operations	$ 0.85	$ 0.63	$ 2.65	$ 1.66
Discontinued operations	Discontinued operations	(0.01)	0.11	(0.02)	0.34	Discontinued operations	(0.01)	(0.18)	(0.03)	0.15
Net income	Net income	$ 0.90	$ 0.49	$ 1.77	$ 1.36	Net income	$ 0.84	$ 0.45	$ 2.62	$ 1.81

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 June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	99.5	99.2	99.5	99.2	Basic weighted average common shares outstanding	99.5	99.2	99.5	99.2
Restricted stock awards, dilutive stock options, and restricted stock units	Restricted stock awards, dilutive stock options, and restricted stock units	1.6	1.1	1.5	1.0	Restricted stock awards, dilutive stock options, and restricted stock units	1.9	1.3	1.6	1.1
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	101.1	100.3	101.0	100.2	Diluted weighted average common shares outstanding	101.4	100.5	101.1	100.3

See Note 17, *Earnings per Common Share*, to the consolidated financial statements accompanying the 2022 Form 10-K for additional information related to our common stock.

11. 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, or and may in the future result in, Encompass Health refunding amounts to Medicare or other federal healthcare programs.

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, 2022, 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, 2022 filed on February 27, 2023 (collectively, the "2022 Form 10K").

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" 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 2022 Form 10K.

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 the eastern half of the United States and Texas. As of June 30, 2023 September 30, 2023, we operate 158 159 inpatient rehabilitation hospitals. For additional information about our business, see Item 1, *Business*, and Item 1A, *Risk Factors*, of the 2022 Form 10K.

Spin Off of Home Health and Hospice Business

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

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

In connection with the Spin Off, on June 30, 2022, we entered into several agreements with Enhabit that govern the relationship of the parties following the Spin Off, including a Separation and Distribution Agreement, a Transition Services Agreement, a Tax Matters Agreement and an Employee Matters Agreement. See also Note 2, *Spin Off of Home Health and Hospice Business,* to the condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report.

2023 Overview

During the three and six nine months ended June 30, 2023 September 30, 2023, *Net operating revenues* increased 11.7% 10.8% and 10.6% 10.7%, respectively, over the same periods of 2022 due primarily to volume growth. See "Results of Operations" section of this Item for additional volume information.

We In our continued our development and expansion efforts in 2023. We: during 2023, we:

- began operating our new 51-bed inpatient rehabilitation hospital and 22-bed hospital-in-hospital satellite in Knoxville, Tennessee with our joint venture partner Covenant Health in March 2023;
- began operating our new 36-bed inpatient rehabilitation hospital in Eau Claire, Wisconsin with our joint venture partner Hospital Sisters Health System in March 2023;
- began operating our new 40-bed inpatient rehabilitation hospital in Owasso, Oklahoma with our joint venture partner Ascension St. John in March 2023;
- began operating our new 50-bed inpatient rehabilitation hospital in Clermont, Florida in April 2023;
- began operating our new 60-bed inpatient rehabilitation hospital in Bowie, Maryland in June 2023 (joint venture partnership with University of Maryland Rehabilitation Institute of Southern Maryland, LLC began in July 2023);
- began operating our new 40-bed inpatient rehabilitation hospital in Columbus, Georgia with our joint venture partner Piedmont Healthcare, Inc. in September 2023;
- continued our capacity expansions by adding 15 41 new beds to existing hospitals; and

- announced or continued the development of the following hospitals:

	Number of New Beds			
	2023	2024(2)	2025(2)	2026(2)
Columbus, Georgia(1)	40	—	—	—
Prosper, Texas	40	—	—	—
Fitchburg, Wisconsin	— 56	56 —	—	—
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	—	—	50	—
Athens, Georgia(1)	—	—	40	—
St. Petersburg, Florida	—	—	50	—
Palm Beach Gardens, Florida	—	—	—	50
Amarillo, Texas	—	—	—	50
Strongsville, Ohio	—	—	—	40
Danbury, Connecticut	—	—	—	40

(1) Expected joint venture

(2) Opening dates are tentative

We also continued our shareholder distributions. In October 2022, February 2023, May 2023, and May July 2023, our board of directors declared cash dividends of $0.15 per share that were paid in January 2023, April 2023, July 2023, and July October 2023, respectively. On July 20, 2023 October 19, 2023, our board of directors declared a cash dividend of $0.15 per share, payable on October 16, 2023 January 16, 2024 to stockholders of record on October 2, 2023 January 2, 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, 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 2022 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.

The healthcare industry faces the prospect of ongoing efforts to transform the healthcare system to coordinated care delivery and payment models. The nature, timing and extent of that transformation remains uncertain, as the development and implementation of new care delivery and payment systems will require significant time and resources. Our goal is to position the Company in a prudent manner to be responsive to industry shifts. We have invested in our core business and created an infrastructure that enables us to provide high-quality care on a cost-effective basis. We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2025. We continue to have a strong, well-capitalized balance sheet, including a substantial portfolio of owned real estate, and ample availability under our revolving credit facility, which along with the cash flows generated from operations should, we believe, provide sufficient support for our ability to adapt to changes in reimbursement, sustain our business model, and grow through de novo and bed additions. See also Item 1, *Business*, "Competitive Strengths" and "Strategy and 2023 Strategic Priorities" of the 2022 Form 10K.

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 2022 Form 10K.

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 2022 Form 10K for detailed discussions of the most important regulations we face and our programs intended to ensure we comply with those regulations.

Reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals, are subject to audit from time to time by governmental payors, such as Centers for Medicare & Medicaid Services ("CMS") and state Medicaid programs, their agents, such as the Medicare Administrative Contractors that act as fiscal intermediaries for all Medicare billings, other auditors contracted by CMS, and private insurance carriers, as well as the United States Department of Health and Human Services Office of Inspector General. These audits as well as the ordinary course claim reviews of our billings result in payment denials, including recoupment of previously paid claims from current accounts receivable. Healthcare providers can challenge any denials through an administrative appeals process that can be extremely lengthy, taking up to several years. During the first quarter of 2023, a Supplemental Medical Review Contractor ("SMRC") initiated a review of claims from March 2020 through December 2020 totaling approximately $21 million. We have received initial results for the claims under review and approximately 82% 85% of these have been approved with approximately $4 million $3 million under appeal. For additional details of our claim reviews, see Item 1, *Business*, "Sources of Revenues," Item 1A, *Risk Factors,* "Reimbursement Risks," and Note 1, *Summary of Significant Accounting Policies*, "Net Operating Revenues" and "Accounts Receivable," of the 2022 Form 10-K.

- Changes in Medicare Reimbursement and Regulatory Requirements for Operating IRFs. On July 27, 2023, CMS released its notice of final rulemaking for fiscal year 2024 for IRFs (the "2024 Final Rule") under the inpatient rehabilitation facility prospective payment system. The 2024 Final Rule will implement a net 3.4% market basket increase (market basket update of 3.6% reduced by a productivity adjustment of 0.2%) effective for discharges between October 1, 2023 and September 30, 2024. The 2024 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, updates to the case-mix group relative weights and average lengths of stay values, and modifications of the IRF Quality Reporting Program. Based on our analysis that utilizes, among other things, the acuity of our patients annualized over a twelve-month period ended June 30, 2023, our experience with outlier payments over this same time frame, and other factors, we believe the 2024 Final Rule will result in a net increase to our Medicare payment rates of approximately 3.3% effective October 1, 2023.

  Beginning August 21, 2023, CMS will implement implemented a five-year review choice demonstration ("RCD") for IRF services in Alabama. CMS plans to expand RCD to Pennsylvania, Texas, and California, but the timing of this expansion is not known. We operate 46 inpatient rehabilitation hospitals (representing approximately 30% of our IRF Medicare claims) in those four states. CMS has announced it will expand RCD to include additional IRFs based on the Medicare Administrative Contractor to which those IRFs submit claims. Under RCD, participating IRFs will have an initial choice between pre-claim or post-payment review of 100% of claims submitted to demonstrate compliance with applicable Medicare coverage and clinical documentation requirements. We have selected the pre-claim option for our IRFs in Alabama. Under the pre-claim review choice, services could 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. Under the post-payment review choice, IRFs would provide services, submit all claims for payment following their normal processes, and then submit required documentation for medical review. If a certain percentage of the claims reviewed are found to be valid, the IRF may then opt out of the 100% review. That percentage will initially be 80% or greater and eventually increase to 90% or greater in subsequent review cycles. In opting out, the IRF may elect spot prepayment reviews of samples consisting of 5% of total claims or selective post-payment review of a statistically valid random sample. RCD will does not create new documentation requirements. Given we are in the early stages of RCD, we cannot predict the impact, if any, it 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 being a high-quality, cost-effective provider of post-acute services. Additionally, our operations have been affected and may in the future be affected by staffing shortages where competition creates a nursing shortage in a given market. Staffing In recent years, staffing shortages have resulted in increased labor costs, including significant sign-on and shift bonuses, and increased use of contract labor as discussed in the "Results of Operations" section of this Item. labor. See Item 1A, *Risk Factors*, of the 2022 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.

Results of Operations

Payor Mix

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

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Medicare	Medicare	64.4 %	64.9 %	64.7 %	65.1 %	Medicare	65.2 %	65.3 %	64.8 %	65.0 %
Medicare Advantage	Medicare Advantage	16.7 %	15.1 %	16.4 %	14.9 %	Medicare Advantage	15.9 %	15.0 %	16.2 %	15.0 %
Managed care	Managed care	11.2 %	11.6 %	11.1 %	12.0 %	Managed care	11.2 %	11.6 %	11.2 %	11.9 %
Medicaid	Medicaid	4.1 %	4.5 %	4.1 %	4.2 %	Medicaid	4.1 %	4.4 %	4.1 %	4.3 %
Other third-party payors	Other third-party payors	0.9 %	0.9 %	0.9 %	0.9 %	Other third-party payors	0.9 %	0.9 %	0.9 %	0.9 %
Workers' compensation	Workers' compensation	0.6 %	0.6 %	0.6 %	0.6 %	Workers' compensation	0.5 %	0.6 %	0.6 %	0.6 %
Patients	Patients	0.3 %	0.4 %	0.3 %	0.4 %	Patients	0.3 %	0.3 %	0.3 %	0.4 %
Other income	Other income	1.8 %	2.0 %	1.9 %	1.9 %	Other income	1.9 %	1.9 %	1.9 %	1.9 %
Total	Total	100.0 %	100.0 %	100.0 %	100.0 %	Total	100.0 %	100.0 %	100.0 %	100.0 %

For additional information regarding our payors, see the "Sources of Revenues" section of Item 1, *Business*, of the 2022 Form 10-K.

Our Results

Our consolidated results of operations were as follows:

		Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Percentage Change 2023 vs. 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Percentage Change 2023 vs. 2022
		(In Millions, Except Percentage Change)					
Net operating revenues	Net operating revenues	$1,187.1	$1,062.5	11.7 %	$2,347.5	$2,121.8	10.6 %
Operating expenses:	Operating expenses:						
Salaries and benefits	Salaries and benefits	636.2	585.9	8.6 %	1,265.2	1,173.3	7.8 %
Other operating expenses	Other operating expenses	172.7	169.3	2.0 %	350.6	328.3	6.8 %
Occupancy costs	Occupancy costs	14.3	13.8	3.6 %	28.1	29.2	(3.8) %
Supplies	Supplies	52.0	47.3	9.9 %	105.8	97.1	9.0 %
General and administrative expenses	General and administrative expenses	55.4	36.2	53.0 %	98.8	73.6	34.2 %
Depreciation and amortization	Depreciation and amortization	72.6	60.5	20.0 %	136.5	118.2	15.5 %
Total operating expenses	Total operating expenses	1,003.2	913.0	9.9 %	1,985.0	1,819.7	9.1 %
Loss on early extinguishment of debt	Loss on early extinguishment of debt	—	1.1	(100.0) %	—	1.4	(100.0) %
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	36.3	60.4	(39.9) %	72.7	100.0	(27.3) %
Other (income) expense	Other (income) expense	(2.7)	6.4	(142.2) %	(6.3)	10.0	(163.0) %
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates	(0.9)	(1.0)	(10.0) %	(1.3)	(1.9)	(31.6) %
Income from continuing operations before income tax expense	Income from continuing operations before income tax expense	151.2	82.6	83.1 %	297.4	192.6	54.4 %
Provision for income tax expense	Provision for income tax expense	32.8	22.8	43.9 %	64.7	46.4	39.4 %
Income from continuing operations	Income from continuing operations	118.4	59.8	98.0 %	232.7	146.2	59.2 %
(Loss) income from discontinued operations, net of tax	(Loss) income from discontinued operations, net of tax	(1.2)	11.5	(110.4) %	(2.2)	35.2	(106.3) %
Net income	**Net income**	117.2	71.3	64.4 %	230.5	181.4	27.1 %

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Percentage Change 2023 vs. 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	P
	(In Millions, Except Percentage Change)					
Net operating revenues	$1,206.9	$1,089.5	10.8 %	$3,554.4	$3,211.3	
Operating expenses:						
Salaries and benefits	658.6	605.6	8.8 %	1,923.8	1,778.9	
Other operating expenses	183.7	172.0	6.8 %	534.3	500.3	
Occupancy costs	14.2	12.4	14.5 %	42.3	41.6	
Supplies	53.9	51.1	5.5 %	159.7	148.2	
General and administrative expenses	49.8	37.9	31.4 %	148.6	111.5	
Depreciation and amortization	67.3	62.1	8.4 %	203.8	180.3	
Total operating expenses	1,027.5	941.1	9.2 %	3,012.5	2,760.8	
Loss on early extinguishment of debt	—	—	— %	—	1.4	
Interest expense and amortization of debt discounts and fees	35.9	38.2	(6.0) %	108.6	138.2	
Other (income) expense	(0.5)	3.6	(113.9) %	(6.8)	13.6	
Equity in net income of nonconsolidated affiliates	(1.0)	(0.7)	42.9 %	(2.3)	(2.6)	
Income from continuing operations before income tax expense	145.0	107.3	35.1 %	442.4	299.9	
Provision for income tax expense	30.3	21.8	39.0 %	95.0	68.2	
Income from continuing operations	114.7	85.5	34.2 %	347.4	231.7	
(Loss) income from discontinued operations, net of tax	(1.3)	(18.5)	(93.0) %	(3.5)	16.7	
Net income	113.4	67.0	69.3 %	343.9	248.4	

Less: Net income attributable to noncontrolling interests included in continuing operations	Less: Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	17.8 %	(51.4)	(43.9)	17.1 %	Less: Net income attributable to noncontrolling interests included in continuing operations	(28.1)	(21.6)	30.1 %	(79.5)	(65.5)
Less: Net income attributable to noncontrolling interests included in discontinued operations	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	(0.7)	(100.0) %	—	(1.3)	(100.0) %	Less: Net income attributable to noncontrolling interests included in discontinued operations	—	—	— %	—	(1.3)
Less: Net and comprehensive income attributable to noncontrolling interests	Less: Net and comprehensive income attributable to noncontrolling interests	(25.8)	(22.6)	14.2 %	(51.4)	(45.2)	13.7 %	Less: Net and comprehensive income attributable to noncontrolling interests	(28.1)	(21.6)	30.1 %	(79.5)	(66.8)
Net income attributable to Encompass Health	**Net income attributable to Encompass Health**	$ 91.4	$ 48.7	87.7 %	$ 179.1	$ 136.2	31.5 %	**Net income attributable to Encompass Health**	$ 85.3	$ 45.4	87.9 %	$ 264.4	$ 181.6

22 23

Operating Expenses as a % of Net Operating Revenues

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	**2022**	**2023**	**2022**		**2023**	**2022**	**2023**	**2022**
Operating expenses:	Operating expenses:					Operating expenses:				
Salaries and benefits	Salaries and benefits	53.6 %	55.1 %	53.9 %	55.3 %	Salaries and benefits	54.6 %	55.6 %	54.1 %	55.4 %
Other operating expenses	Other operating expenses	14.5 %	15.9 %	14.9 %	15.5 %	Other operating expenses	15.2 %	15.8 %	15.0 %	15.6 %
Occupancy costs	Occupancy costs	1.2 %	1.3 %	1.2 %	1.4 %	Occupancy costs	1.2 %	1.1 %	1.2 %	1.3 %
Supplies	Supplies	4.4 %	4.5 %	4.5 %	4.6 %	Supplies	4.5 %	4.7 %	4.5 %	4.6 %
General and administrative expenses	General and administrative expenses	4.7 %	3.4 %	4.2 %	3.5 %	General and administrative expenses	4.1 %	3.5 %	4.2 %	3.5 %
Depreciation and amortization	Depreciation and amortization	6.1 %	5.7 %	5.8 %	5.6 %	Depreciation and amortization	5.6 %	5.7 %	5.7 %	5.6 %
Total operating expenses	Total operating expenses	84.5 %	85.9 %	84.6 %	85.8 %	Total operating expenses	85.1 %	86.4 %	84.8 %	86.0 %

Additional information regarding our operating results is as follows:

Three Months Ended June 30,		Percentage Change	Six Months Ended June 30,		Percentage Change	Three Months Ended September 30,		Percentage Change	Nine Month Septemb
		2023 vs. 2022			2023 vs. 2022			2023 vs. 2022	
2023	2022		2023	2022		2023	2022		2023

		(In Millions, Except Percentage Change)							(In Millions, Except Percentage Cl					
Net operating revenues:	**Net operating revenues:**							**Net operating revenues:**						
Inpatient	Inpatient	$ 1,162.3	$ 1,037.8	12.0 %	$ 2,296.5	$ 2,074.0	10.7 %	Inpatient	$ 1,180.5	$ 1,064.6	10.9 %	$ 3,477.0	$
Outpatient and other	Outpatient and other	24.8	24.7	0.4 %	51.0	47.8	6.7 %	Outpatient and other	26.4	24.9	6.0 %	77.4	
Net operating revenues	**Net operating revenues**	$ 1,187.1	$ 1,062.5	11.7 %	$ 2,347.5	$ 2,121.8	10.6 %	**Net operating revenues**	$ 1,206.9	$ 1,089.5	10.8 %	$ 3,554.4	$
		(Actual Amounts)							**(Actual Amounts)**				
Discharges	Discharges	57,011	51,902	9.8 %	112,568	102,673	9.6 %	Discharges	57,665	53,743	7.3 %	170,233	
Net patient revenue per discharge	Net patient revenue per discharge	$ 20,387	$ 19,995	2.0 %	$ 20,401	$ 20,200	1.0 %	Net patient revenue per discharge	$ 20,472	$ 19,809	3.3 %	$ 20,425	$
Outpatient visits	Outpatient visits	30,752	35,929	(14.4) %	62,604	71,158	(12.0) %	Outpatient visits	28,604	34,348	(16.7) %	91,208	
Average length of stay (days)	Average length of stay (days)	12.3	12.6	(2.4) %	12.4	12.8	(3.1) %	Average length of stay (days)	12.4	12.7	(2.4) %	12.4	
Occupancy %	Occupancy %	72.4 %	70.7 %	2.4 %	72.5 %	71.2 %	1.8 %	Occupancy %	72.8 %	71.4 %	2.0 %	72.3 %	
# of licensed beds	# of licensed beds	10,611	10,206	4.0 %	10,611	10,206	4.0 %	# of licensed beds	10,677	10,356	3.1 %	10,677	
Occupied beds	Occupied beds	7,682	7,216	6.5 %	7,693	7,267	5.9 %	Occupied beds	7,773	7,394	5.1 %	7,719	7,
Full-time equivalents*	Full-time equivalents*	25,929	24,282	6.8 %	25,755	24,151	6.6 %	Full-time equivalents*	26,500	25,061	5.7 %	26,003	
Employees per occupied bed	Employees per occupied bed	3.38	3.37	0.3 %	3.35	3.32	0.9 %	Employees per occupied bed	3.41	3.39	0.6 %	3.37	

* Full-time equivalents included in the above table represent our employees who participate in or support the operations of our hospitals and include full-time equivalents 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 in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on our results of operations.

Net Operating Revenues

Our consolidated *Net operating revenues* increased during the three months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 primarily due to increased volumes. Discharge growth included a 6.2% 4.3% increase in same-store discharges. Discharge growth from new stores during the three months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 resulted

from our joint ventures in Cape Coral, Florida (June 2022), Moline, Illinois (August 2022), Grand Forks, North Dakota (August 2022), Naples, Florida (September 2022), Eau Claire, Wisconsin (March 2023), Knoxville, Tennessee (March 2023), Owasso, Oklahoma (March 2023), and Bowie, Maryland (June 2023), as well as our wholly owned hospital in Clermont, Florida (April 2023). Growth in net patient revenue per discharge during the three months ended September 30, 2023 compared to the same period of 2022 primarily resulted from an increase in reimbursement rates partially offset by change in patient mix.

Growth in revenues and discharges for the nine months ended September 30, 2023 were impacted primarily by the same factors as discussed above for the third quarter of 2023. Discharge growth included a 4.9% increase in same-store discharges. Discharge growth from new stores during the nine months ended September 30, 2023 compared to the same period of 2022 also resulted from our joint ventures in Shiloh, Illinois (February 2022) and Cape Coral, Florida (June 2022), as well as wholly owned hospitals in St. Augustine, Florida (March 2022), Libertyville, Illinois (March 2022), Lakeland, Florida (May 2022), and Jacksonville, Florida (June 2022). Growth in net patient revenue per discharge during the three nine months ended June 30, 2023 compared to the same period of 2022 primarily resulted from an increase in reimbursement rates and lower revenue reserves related to bad debt, partially offset by the resumption of sequestration on April 1, 2022 and change in patient mix. Revenue reserves related to bad debt as a percentage of *Net operating revenues* decreased during the three months ended June 30, 2023 to 1.9% from 2.2% during the three months ended June 30, 2022 primarily due to SMRC audit results trending favorable compared to previously established reserves and lower aging based reserves resulting from increased collections. For additional information related to our SMRC audits, see the "Executive Overview—Key Challenges" section of this Item.

Growth in revenues and discharges for the six months ended June 30, 2023 were impacted primarily by the same factors as discussed above for the second quarter of 2023. Discharge growth included a 5.7% increase in same-store discharges. Discharge growth from new stores during the six months ended June 30, 2023 compared to the same period of 2022 also resulted from our joint venture in Shiloh, Illinois (February 2022) as well as wholly owned hospitals in St. Augustine, Florida (March 2022) and Libertyville, Illinois (March 2022). Growth in net patient revenue per discharge during the six months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 primarily resulted from an increase in reimbursement rates partially offset by the resumption of sequestration on April 1, 2022, and change in patient mix, and the annual update to the Supplemental Security Income percentage. mix.

Salaries and Benefits

Salaries and benefits increased during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 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 as a percent of *Net operating revenues* during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to decreases in both contract labor and sign-on and shift bonuses ($36.1 33.3 million and $73.1 million $106.4 million during the three and six nine months ended June 30, 2023 September 30, 2023, respectively, compared to $56.9 million $49.0 million and $119.9 million $168.9 million during the three and six nine months ended June 30, 2022 September 30, 2022).

Other Operating Expenses

Other operating expenses increased in terms of dollars during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to increased provider taxes and higher costs associated with property tax, contract services, repairs maintenance contracts, insurance, and maintenance, and utilities. utilities resulting from our development activities. *Other operating expenses* decreased as a percent of *Net operating revenues* during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to higher volumes.

General and Administrative Expenses

General and administrative expenses increased in terms of dollars and as a percent of *Net operating revenues* during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to higher incentive compensation costs.

Depreciation and Amortization

Depreciation and amortization increased during the three and six months ended June 30, 2023 September 30, 2023 compared to the same periods period of 2022 due to our capital investments. *Depreciation and amortization* increased during the nine months ended September 30, 2023 compared to the same period of 2022 due to our capital investments and $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. We expect *Depreciation and amortization* to increase going forward as a result of our recent and ongoing capital investments.

Interest Expense and Amortization of Debt Discounts and Fees

The decrease in *Interest expense and amortization of debt discounts and fees* during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods period of 2022 primarily resulted from the $20.5 million consent solicitation fee paid to bond holders in June 2022 related to the Spin Off of Enhabit and the extinguishment of the term loan facilities. For additional information, see Note 5, *Long-term Debt*, to 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 2022 Form 10-K.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations increased during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to the increase in *Net operating revenues* as discussed above.

Provision for Income Tax Expense

Our *Provision for income tax expense* increased during the three and six nine months ended June 30, 2023 September 30, 2023 compared to the same periods of 2022 primarily due to higher *Income from continuing operations before income tax expense.*

We currently estimate our cash payments for income taxes to be approximately $95 million $100 million to $110 million, net of refunds, for 2023. These payments are expected to primarily result from federal and state income tax expenses based on estimates of taxable income for 2023.

In certain jurisdictions, we do not expect to generate sufficient income to use all of the available state net operating losses and other 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 tax laws and rates.

See Note 9, *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 2022 Form 10-K.

Net Income Attributable to Noncontrolling Interests

The increase in *Net income attributable to noncontrolling interests* during the three and six months ended June 30, 2023 September 30, 2023 compared to the same periods period of 2022 resulted from increased profitability from certain existing joint venture hospitals partially offset by the ramp up of new joint venture de novo locations. The increase in *Net income attributable to noncontrolling interests* during the nine months ended September 30, 2023 compared to the same period of 2022 resulted from increased profitability from certain existing joint venture hospitals partially offset by the ramp up of new joint venture de novo locations and a $2.2 million reduction to *Net income attributable to noncontrolling interests* related to the accelerated amortization of the remaining carrying value of our CON assets in South Carolina (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.

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

For additional information, see Note 5, *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 2022 Form 10-K.

Current Liquidity

As of June 30, 2023 September 30, 2023, we had $117.5 million $99.7 million in *Cash and cash equivalents*. This amount excludes $36.5 $41.5 million in *Restricted cash* and $114.3 million $122.0 million of restricted marketable securities ($33.0 37.2 million included in *Other current assets* and $81.3 million $84.8 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 2022 Form 10-K.

In addition to *Cash and cash equivalents*, as of June 30, 2023 September 30, 2023, we had approximately $966 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 June 30, 2023 September 30, 2023, the maximum leverage ratio requirement per our credit agreement was 4.75x and the minimum interest coverage ratio requirement was 3.0x, and we were in compliance with these covenants. Based on Adjusted EBITDA for the trailing four quarters and the interest rate in effect under our credit agreement during the three-month period ended June 30, 2023 September 30, 2023, 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.

On December 9, 2021, we announced the commencement of a consent solicitation of holders of our 5.75% Senior Notes due 2025, 4.50% Senior Notes due 2028 (the "2028 Notes"), 4.75% Senior Notes due 2030 (the "2030 Notes"), and 4.625% Senior Notes due 2031 (the "2031 Notes" and collectively the "Notes") for the adoption of certain amendments to an indenture (the "Base Indenture") dated as of December 1, 2009, as supplemented by each Notes' respective supplemental indenture (together with the Base Indenture, the "Indenture"), which provided us with greater flexibility in effecting the Spin Off discussed in the "Executive Overview" section of this Item. Each Indenture contains restrictive covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to make certain asset dispositions, investments, and distributions to holders of our capital stock. The amendments to the Indentures permitted us, subject to the leverage ratio condition set forth below, to distribute to our equity holders in one or more transactions (a "Distribution") some or all of the common stock of a subsidiary that holds substantially all of the assets of our home health and hospice business. We were permitted to make any such distribution so long as the Leverage Ratio (as defined in each Indenture) was no more than 3.5 to 1.0 on a pro forma basis after giving effect thereto. The amendments also reduced the capacity under our restricted payments builder basket under each existing Indenture for the 2028 Notes, 2030 Notes, and 2031 Notes by $200 million and amended the definition of "Consolidated Net Income" to allow us to exclude from Consolidated Net Income (a component of the Leverage Ratio) any fees, expenses or charges related to any Distribution and the solicitation of consents from the holders of the Notes. In December 2021 and January 2022, we received the requisite consents for the adoption of these amendments. Under the terms of the amendments, we agreed to pay the holders of the Notes a total of $40.5 million, excluding fees. We paid $20.0 million and $20.5 million in January and June 2022, respectively.

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 June 30, 2023 September 30, 2023.

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 2022 Form 10K.

27

Sources and Uses of Cash

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

	Six Months Ended June 30,	
	2023	2022
Net cash provided by operating activities	$ 437.5	$ 387.6
Net cash used in investing activities	(232.5)	(242.8)
Net cash used in financing activities	(101.5)	(650.0)
Increase (decrease) in cash, cash equivalents, and restricted cash	$ 103.5	$ (505.2)

26

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	$ 654.4	$ 477.6
Net cash used in investing activities	(394.7)	(417.0)
Net cash used in financing activities	(167.3)	(645.3)
Increase (decrease) in cash, cash equivalents, and restricted cash	$ 92.4	$ (584.7)

Operating activities. The increase in *Net cash provided by operating activities* of continuing operations for the six nine months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 primarily resulted from an increase in *Net income* which was driven by growth in *Net operating revenues*.

Investing activities. The decrease in *Net cash used in investing activities* of continuing operations during the six nine months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 primarily resulted from decreased purchases of property and equipment.

Financing activities. The decrease in *Net cash used in financing activities* of continuing operations during the six nine months ended June 30, 2023 September 30, 2023 compared to the same period of 2022 primarily resulted from lower net debt payments, debt amendment costs, and dividends paid on commons stock. For additional information on debt payments, see Note 5, *Long-term Debt*, to the accompanying condensed consolidated financial statements included in Part I, Item 1, *Financial Statements (Unaudited)*, of this report.

Contractual Obligations

Our consolidated contractual obligations as of June 30, 2023 September 30, 2023 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 revolving credit facility and finance lease obligations (a)	Long-term debt, excluding revolving credit facility and finance lease obligations (a)	$ 2,370.1	$ 2.1	$ 2,368.0	Long-term debt, excluding revolving credit facility and finance lease obligations (a)	$ 2,371.3	$ 2.8	$ 2,368.5
Interest on long-term debt (b)	Interest on long-term debt (b)	645.2	145.8	499.4	Interest on long-term debt (b)	587.6	117.6	470.0
Finance lease obligations (c)	Finance lease obligations (c)	528.2	46.1	482.1	Finance lease obligations (c)	516.6	46.2	470.4
Operating lease obligations (d)	Operating lease obligations (d)	290.9	38.6	252.3	Operating lease obligations (d)	277.9	36.9	241.0
Purchase obligations (e)	Purchase obligations (e)	151.2	31.6	119.6	Purchase obligations (e)	149.1	36.9	112.2
Total	Total	$ 3,985.6	$ 264.2	$ 3,721.4	Total	$ 3,902.5	$ 240.4	$ 3,662.1

(a) Included in long-term debt are amounts owed on our bonds payable and other notes payable. These borrowings are further explained in Note 5, *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 2022 Form 10K.

(b) Interest on our fixed rate debt is presented using the stated interest rate. Interest pertaining to our credit agreement and bonds is included to their respective ultimate maturity dates. Interest related to finance lease obligations is excluded from this line. 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 10% 9% of our hospitals as well as other property and equipment under operating leases in the normal course of business. Amounts include interest portion of future minimum operating lease payments. For more information, see Note 8, *Leases,* to the consolidated financial statements accompanying the 2022 Form 10K.

(e) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on Encompass Health and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Our purchase obligations primarily relate to software licensing and support and medical equipment. Purchase obligations are not recognized in our 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 six nine months ended June 30, 2023 September 30, 2023, we made capital expenditures of approximately $222 million $371 million for property and equipment, capitalized software, and other intangible assets. During 2023, we expect to spend approximately $565 million $590 million to $605 million $620 million for capital expenditures using cash on hand and borrowings under our revolving credit facility. Approximately $230 million $210 million to $240 million $220 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 2022, February 2023, May 2023, and May July 2023, our board of directors declared cash dividends of $0.15 per share that were paid in January 2023, April 2023, July 2023, and July October 2023, respectively. On July 20, 2023 October 19, 2023, our board of directors declared a cash dividend of $0.15 per share, payable on October 16, 2023 January 16, 2024 to stockholders of record on October 2, 2023 January 2, 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.

On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to $250 million. As of June 30, 2023, approximately $198 million remained under this authorization. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. 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 Notes are guaranteed by certain consolidated subsidiaries. These guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. The Notes are guaranteed on a senior, unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our credit agreement and other capital markets debt. The other subsidiaries of Encompass Health do not guarantee the Notes (such subsidiaries are referred to as the "non-guarantor subsidiaries").

The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement, and (2) either (a) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 2x and our leverage ratio (as defined in our credit agreement) remains less than or equal to 4.50x or (b) our leverage ratio remains in compliance with the leverage ratio covenant and there is capacity under the Available Amount as defined in the credit agreement. The terms of our 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 5, *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 2022 Form 10K.

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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.

		Six Nine Months Ended June 30, 2023 September 30, 2023
		(In Millions)
Net operating revenues	$	1,494.0 2,252.6
Intercompany revenues generated from non-guarantor subsidiaries		44.5 67.5
Total net operating revenues	$	1,538.5 2,320.1
Operating expenses	$	1,300.7 1,970.7
Intercompany expenses incurred in transactions with non-guarantor subsidiaries		16.8 25.2
Total operating expenses	$	1,317.5 1,995.9
Income from continuing operations	$	112.7 162.9
Net income	$	110.5 159.4
Net income attributable to Encompass Health	$	110.5 159.4

		As of June 30, 2023	As of December 31, 2022		As of September 30, 2023	As of December 31, 2022
		(In Millions)			(In Millions)	
Total current assets	Total current assets	$ 556.2	$ 466.3	Total current assets	$ 517.5	$ 466.3
Property and equipment, net	Property and equipment, net	$ 2,050.8	$ 1,975.0	Property and equipment, net	$ 2,147.6	$ 1,975.0
Goodwill	Goodwill	902.6	902.6	Goodwill	902.6	902.6
Intercompany receivable due from non-guarantor subsidiaries	Intercompany receivable due from non-guarantor subsidiaries	228.4	254.9	Intercompany receivable due from non-guarantor subsidiaries	217.2	254.9
Other noncurrent assets	Other noncurrent assets	485.9	508.2	Other noncurrent assets	463.3	508.2
Total noncurrent assets	Total noncurrent assets	$ 3,667.7	$ 3,640.7	Total noncurrent assets	$ 3,730.7	$ 3,640.7
Total current liabilities	Total current liabilities	$ 483.3	$ 437.8	Total current liabilities	$ 479.0	$ 437.8
Long-term debt, net of current portion	Long-term debt, net of current portion	$ 2,610.4	$ 2,670.6	Long-term debt, net of current portion	$ 2,607.6	$ 2,670.6
Other noncurrent liabilities	Other noncurrent liabilities	334.0	349.7	Other noncurrent liabilities	322.7	349.7
Total noncurrent liabilities	Total noncurrent liabilities	$ 2,944.4	$ 3,020.3	Total noncurrent liabilities	$ 2,930.3	$ 3,020.3

Adjusted EBITDA

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

We use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated basis is important in analyzing our liquidity because it is the key component of certain material covenants contained within our credit agreement, which is discussed in more detail in Note 10, *Long-term Debt*, to the consolidated financial statements accompanying the 2022 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 2022 Form 10‑K.

Our Adjusted EBITDA was as follows (in millions):

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

		Six Months Ended June 30,					**Nine Months Ended September 30,**			
		2023		**2022**			**2023**		**2022**	
Net cash provided by operating activities	**Net cash provided by operating activities**	$	434.6	$	463.5	**Net cash provided by operating activities**	$	649.8	$	533.6
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees		72.7		100.0	Interest expense and amortization of debt discounts and fees		108.6		138.2
Gain (loss) on sale of investments, excluding impairments			1.8		(11.9)					
Loss on sale of investments, excluding impairments						Loss on sale of investments, excluding impairments		(0.9)		(16.5)
Equity in net income of nonconsolidated affiliates	Equity in net income of nonconsolidated affiliates		1.3		1.9	Equity in net income of nonconsolidated affiliates		2.3		2.6
Net income attributable to noncontrolling interests in continuing operations	Net income attributable to noncontrolling interests in continuing operations		(51.4)		(43.9)	Net income attributable to noncontrolling interests in continuing operations		(79.5)		(65.5)
Amortization of debt-related items	Amortization of debt-related items		(4.7)		(4.8)	Amortization of debt-related items		(7.1)		(7.4)
Distributions from nonconsolidated affiliates	Distributions from nonconsolidated affiliates		(0.2)		(2.9)	Distributions from nonconsolidated affiliates		(0.6)		(3.7)
Current portion of income tax expense	Current portion of income tax expense		64.4		52.9	Current portion of income tax expense		97.9		75.9
Change in assets and liabilities	Change in assets and liabilities		(41.4)		(93.4)	Change in assets and liabilities		(58.9)		(23.5)

Cash used in (provided by) operating activities of discontinued operations	Cash used in (provided by) operating activities of discontinued operations	2.9	(75.9)	Cash used in (provided by) operating activities of discontinued operations	4.6	(56.0)
State regulatory change impact on noncontrolling interests	State regulatory change impact on noncontrolling interests	(2.2)	—	State regulatory change impact on noncontrolling interests	(2.2)	—
Change in fair market value of equity securities	Change in fair market value of equity securities	0.6	5.7	Change in fair market value of equity securities	2.1	8.8
Other	Other	0.2	0.1	Other	—	0.1
Adjusted EBITDA	**Adjusted EBITDA**	$ 478.6	$ 391.3	**Adjusted EBITDA**	$ 716.1	$ 586.6

30 31

Reconciliation of Net Income to Adjusted EBITDA

		Three Months Ended June 30,		Six Months Ended June 30,			Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022		2023	2022	2023	2022
Net income	**Net income**	$ 117.2	$ 71.3	$ 230.5	$ 181.4	**Net income**	$ 113.4	$ 67.0	$ 343.9	$ 248.4
Loss (income) from discontinued operations, net of tax, attributable to Encompass Health	Loss (income) from discontinued operations, net of tax, attributable to Encompass Health	1.2	(11.5)	2.2	(35.2)	Loss (income) from discontinued operations, net of tax, attributable to Encompass Health	1.3	18.5	3.5	(16.7)
Net income attributable to noncontrolling interests included in continuing operations	Net income attributable to noncontrolling interests included in continuing operations	(25.8)	(21.9)	(51.4)	(43.9)	Net income attributable to noncontrolling interests included in continuing operations	(28.1)	(21.6)	(79.5)	(65.5)
Provision for income tax expense	Provision for income tax expense	32.8	22.8	64.7	46.4	Provision for income tax expense	30.3	21.8	95.0	68.2
Interest expense and amortization of debt discounts and fees	Interest expense and amortization of debt discounts and fees	36.3	60.4	72.7	100.0	Interest expense and amortization of debt discounts and fees	35.9	38.2	108.6	138.2
Loss on disposal or impairment of assets		0.8	2.8	1.5	3.5					
Loss (gain) on disposal or impairment of assets						Loss (gain) on disposal or impairment of assets	2.2	(1.1)	3.7	2.4
Depreciation and amortization	Depreciation and amortization	72.6	60.5	136.5	118.2	Depreciation and amortization	67.3	62.1	203.8	180.3

Loss on early extinguishment of debt	Loss on early extinguishment of debt	—	1.1	—	1.4	Loss on early extinguishment of debt	—	—	—	1.4
Stock-based compensation	Stock-based compensation	15.6	7.7	23.5	13.8	Stock-based compensation	13.7	7.3	37.2	21.1
State regulatory change impact on noncontrolling interests	State regulatory change impact on noncontrolling interests	(2.2)	—	(2.2)	—	State regulatory change impact on noncontrolling interests	—	—	(2.2)	—
Change in fair market value of equity securities	Change in fair market value of equity securities	1.1	3.2	0.6	5.7	Change in fair market value of equity securities	1.5	3.1	2.1	8.8
Adjusted EBITDA	**Adjusted EBITDA**	$ 249.6	$ 196.4	$ 478.6	$ 391.3	**Adjusted EBITDA**	$ 237.5	$ 195.3	$ 716.1	$ 586.6

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 June 30, 2023 September 30, 2023 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 11, *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 10K for the year ended December 31, 2022 (the "2022 Form 10K").

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A, *Risk Factors*, of the 2022 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 June 30, 2023 September 30, 2023:

Period	Total Number of Shares (or Units) Purchased(1)		Average Price Paid per Share (or Unit) ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs(2)
April 1 through April 30, 2023	691	$	61.51	—	$	198,053,924
May 1 through May 31, 2023	—		—	—		198,053,924
June 1 through June 30, 2023	375		64.85	—		198,053,924
Total	1,066		62.68	—		

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)
July 1 through July 31, 2023	703	$	67.13	—	$	198,053,924
August 1 through August 31, 2023	—		—	—		198,053,924
September 1 through September 30, 2023	5,704		69.15	—		198,053,924
Total	6,407		68.93	—		

(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 April, 691 July, 452 shares were purchased pursuant to our Directors' Deferred Stock Investment Plan. This plan is a nonqualified deferral plan allowing non-employee directors to make advance elections to defer a fixed percentage of their director fees. The plan administrator acquires the shares in the open market which are then held in a rabbi trust. The plan also provides that dividends paid on the shares held for the accounts of the directors will be reinvested in shares of our common stock which will also be held in the trust. The directors' rights to all shares in the trust are nonforfeitable, but the shares are only released to the directors after departure from our board.

(2) On October 28, 2013, we announced our board of directors authorized the repurchase of up to $200 million of our common stock. On February 14, 2014, our board approved an increase in this common stock repurchase authorization from $200 million to $250 million. On July 24, 2018, our board approved resetting the aggregate common stock repurchase authorization to $250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

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: August 4, November 1, 2023

3435

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 January 1, 2018 December 8, 2022 (incorporated by reference to Exhibit 3.2 3.1 to Encompass Health's Current Report on Form 8-K filed on October 25, 2017 December 13, 2022).
10.1	Description of the Encompass Health Corporation Compensation Recoupment Policy (incorporated by reference to Exhibit 10.1 to Encompass Health's Current Report on Form 8-K filed on July 25, 2023).+
10.2	Encompass Health Corporation Sixth Amended and Restated Change in Control Benefits Plan (incorporated by reference to Exhibit 10.2 to Encompass Health's Current Report on Form 8-K filed on July 25, 2023).+
10.3	Encompass Health Corporation Sixth Amended and Restated Executive Severance Plan (incorporated by reference to Exhibit 10.3 to Encompass Health's Current Report on Form 8-K filed on July 25, 2023).+
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 June 30, 2023 September 30, 2023, 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 June 30, 2023 September 30, 2023.

Advanced Homecare Holdings, Inc.
Continental Medical Systems, LLC
Continental Rehabilitation Hospital of Arizona, Inc.
Encompass Health Acquisition Holdings Subsidiary, LLC
Encompass Health Acquisition Holdings, LLC
Encompass Health Alabama Real Estate, LLC
Encompass Health Arizona Real Estate, LLC
Encompass Health Arkansas Real Estate, LLC
Encompass Health Boise Holdings, LLC
Encompass Health Bryan Holdings, LLC
Encompass Health C Corp Sub Holdings, Inc.
Encompass Health California Real Estate, LLC
Encompass Health Cape Coral Holdings, LLC
Encompass Health Central Arkansas Holdings, Inc.
Encompass Health Charleston Holdings, LLC
Encompass Health Colorado Real Estate, LLC
Encompass Health Dayton Holdings, LLC
Encompass Health Deaconess Holdings, LLC
Encompass Health Eau Claire Holdings, LLC
Encompass Health Fairlawn Holdings, LLC
Encompass Health 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 Properties, LLC
Encompass Health Real Estate, LLC
Encompass Health Rehabilitation Hospital of Abilene, LLC
Encompass Health Rehabilitation Hospital of Albuquerque, LLC
Encompass Health Rehabilitation Hospital of Altamonte Springs, LLC
Encompass Health Rehabilitation Hospital of Arlington, LLC
Encompass Health Rehabilitation Hospital of Austin, LLC
Encompass Health Rehabilitation Hospital of Bakersfield, LLC
Encompass Health Rehabilitation Hospital of Bluffton, LLC
Encompass Health Rehabilitation Hospital of Braintree, LLC
Encompass Health Rehabilitation Hospital of Cardinal Hill, LLC
Encompass Health Rehabilitation Hospital of Cincinnati, LLC
Encompass Health Rehabilitation Hospital of City View, Inc.
Encompass Health Rehabilitation Hospital of Clermont, LLC
Encompass Health Rehabilitation Hospital of Colorado Springs, Inc.
Encompass Health Rehabilitation Hospital of Columbia, Inc.
Encompass Health Rehabilitation Hospital of Concord, Inc.
Encompass Health Rehabilitation Hospital of Cumming, LLC
Encompass Health Rehabilitation Hospital of Cypress, LLC
Encompass Health Rehabilitation Hospital of Dallas, LLC
Encompass Health Rehabilitation Hospital of Desert Canyon, LLC
Encompass Health Rehabilitation Hospital of Dothan, Inc.
Encompass Health Rehabilitation Hospital of East Valley, LLC
Encompass Health Rehabilitation Hospital of Erie, LLC
Encompass Health Rehabilitation Hospital of Florence, Inc.
Encompass Health Rehabilitation Hospital of Fort Smith, LLC
Encompass Health Rehabilitation Hospital of Franklin, LLC
Encompass Health Rehabilitation Hospital of Fredericksburg, LLC
Encompass Health Rehabilitation Hospital of Gadsden, LLC
Encompass Health Rehabilitation Hospital of Greenville, LLC
Encompass Health Rehabilitation Hospital of Harmarville, LLC
Encompass Health Rehabilitation Hospital of Henderson, LLC
Encompass Health Rehabilitation Hospital of Humble, LLC
Encompass Health Rehabilitation Hospital of Jacksonville, LLC
Encompass Health Rehabilitation Hospital of Johnston, LLC
Encompass Health Rehabilitation Hospital of Katy, LLC
Encompass Health Rehabilitation Hospital of Lakeland, LLC
Encompass Health Rehabilitation Hospital of Lakeview, LLC
Encompass Health Rehabilitation Hospital of Largo, LLC
Encompass Health Rehabilitation Hospital of Las Vegas, LLC
Encompass Health Rehabilitation Hospital of Libertyville, LLC
Encompass Health Rehabilitation Hospital of Littleton, LLC
Encompass Health Rehabilitation Hospital of Manati, Inc.
Encompass Health Rehabilitation Hospital of Mechanicsburg, LLC
Encompass Health Rehabilitation Hospital of Miami, LLC
Encompass Health Rehabilitation Hospital of Middletown, LLC
Encompass Health Rehabilitation Hospital of Modesto, LLC
Encompass Health Rehabilitation Hospital of Montgomery, Inc.
Encompass Health Rehabilitation Hospital of Murrieta, LLC
Encompass Health Rehabilitation Hospital of New England, LLC
Encompass Health Rehabilitation Hospital of Nittany Valley, Inc.
Encompass Health Rehabilitation Hospital of North Tampa, LLC
Encompass Health Rehabilitation Hospital of Northern Kentucky, LLC
Encompass Health Rehabilitation Hospital of Northern Virginia, LLC
Encompass Health Rehabilitation Hospital of Northwest Tucson, L.P.
Encompass Health Rehabilitation Hospital of Ocala, LLC

Encompass Health Rehabilitation Hospital of Panama City, Inc.
Encompass Health Rehabilitation Hospital of Pearland, LLC
Encompass Health Rehabilitation Hospital of Pensacola, LLC
Encompass Health Rehabilitation Hospital of Petersburg, LLC
Encompass Health Rehabilitation Hospital of Plano, LLC
Encompass Health Rehabilitation Hospital of Reading, LLC
Encompass Health Rehabilitation Hospital of Richardson, LLC
Encompass Health Rehabilitation Hospital of Round Rock, LLC
Encompass Health Rehabilitation Hospital of San Antonio, Inc.
Encompass Health Rehabilitation Hospital of San Juan, Inc.
Encompass Health Rehabilitation Hospital of Sarasota, LLC
Encompass Health Rehabilitation Hospital of Scottsdale, LLC
Encompass Health Rehabilitation Hospital of Shelby County, LLC
Encompass Health Rehabilitation Hospital of Shreveport, LLC
Encompass Health Rehabilitation Hospital of Sioux Falls, LLC
Encompass Health Rehabilitation Hospital of Spring Hill, Inc.
Encompass Health Rehabilitation Hospital of St. Augustine, LLC
Encompass Health Rehabilitation Hospital of Sugar Land, LLC
Encompass Health Rehabilitation Hospital of Sunrise, LLC
Encompass Health Rehabilitation Hospital of Tallahassee, LLC
Encompass Health Rehabilitation Hospital of Texarkana, Inc.
Encompass Health Rehabilitation Hospital of the Mid-Cities, LLC
Encompass Health Rehabilitation Hospital of The Woodlands, Inc.
Encompass Health Rehabilitation Hospital of Toledo, LLC
Encompass Health Rehabilitation Hospital of Toms River, LLC
Encompass Health Rehabilitation Hospital of Treasure Coast, Inc.
Encompass Health Rehabilitation Hospital of Tustin, L.P.
Encompass Health Rehabilitation Hospital of Utah, LLC
Encompass Health Rehabilitation Hospital of Vineland, LLC
Encompass Health Rehabilitation Hospital of Waco, LLC
Encompass Health Rehabilitation Hospital of Western Massachusetts, LLC
Encompass Health Rehabilitation Hospital of York, LLC
Encompass Health Rehabilitation Hospital The Vintage, LLC
Encompass Health Rehabilitation Hospital Vision Park, LLC
Encompass Health Rehabilitation Institute of Tucson, LLC
Encompass Health San Angelo Holdings, LLC
Encompass Health Savannah Holdings, LLC
Encompass Health Sea Pines Holdings, LLC
Encompass Health Sewickley Holdings, LLC
Encompass Health South Carolina Real Estate, LLC
Encompass Health South Dakota Real Estate, LLC
Encompass Health Southern Illinois Holdings, LLC
Encompass Health Southern Maryland Holdings, LLC
Encompass Health Support Companies, LLC
Encompass Health Texas Real Estate, LLC
Encompass Health Tucson Holdings, LLC
Encompass Health Tulsa Holdings, LLC
Encompass Health Tyler Holdings, Inc.
Encompass Health Utah Real Estate, LLC
Encompass Health ValleyofTheSun Rehabilitation Hospital, LLC
Encompass Health Virginia Real Estate, LLC

Encompass Health Virginia Real Estate, LLC
Encompass Health Walton Rehabilitation Hospital, LLC
Encompass Health West Tennessee Holdings, LLC
Encompass Health West Virginia Real Estate, LLC
Encompass Health Westerville Holdings, LLC
Encompass Health Winston-Salem Holdings, LLC

Encompass Health Winston-Salem Holdings, LLC
Encompass Health Yuma Holdings, Inc.
Encompass IP Holdings Corporation
HealthSouth Rehabilitation Hospital of Austin, Inc.
HealthSouth Rehabilitation Hospital of Fort Worth, LLC
Print Promotions Group, LLC
Rebound, LLC
Rehabilitation Hospital Corporation of America, LLC
Rehabilitation Hospital of North Alabama, LLC
Rehabilitation Hospital of Plano, LLC
Reliant Blocker Corp.
Western Neuro Care, Inc.

Exhibit 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: August 4, November 1, 2023

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: August 4, November 1, 2023

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 June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark J. Tarr, President and Chief Executive Officer of Encompass Health Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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: August 4, November 1, 2023

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.

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 June 30, 2023 September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Douglas E. Coltharp, Executive Vice President and Chief Financial Officer of Encompass Health Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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: August 4, November 1, 2023

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.