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**VIA FACSIMILE NO.: (615) 298-5641 & FEDERAL EXPRESS**

October 15, 2002

Mr. Joel C. Gordon  
6408 East Valley Court  
Nashville Tennessee 37205

**Re: Your Letter of October 8, 2002 to Richard M. Scrusby**

Dear Mr. Gordon:

I have been asked to respond to your letter of October 8, 2002 to Richard M. Scrusby, Chairman of HealthSouth Corporation. I understand you have sent a separate letter to one or more members of the Board enclosing a copy of your letter to Mr. Scrusby.

If you are already represented personally by counsel regarding this matter, please pass this letter on to him/her and ask him/her to call me whenever practicable. When I use the word "you" in this letter, I am referring to you and/or your counsel.

For your convenience, in communicating my response, I will refer to each of your requests by the same numbering you used in your October 8 letter.

1. As Chair of the Corporate Compliance Committee, you have asked for the Company to authorize the CCC to retain its own counsel, either to conduct a separate investigation of the same matters currently under investigation by Fulbright & Jaworksi ("F&J"), or at least to have access to their completed and ongoing work. I am assuming that by this you mean that the Company should pay for such separate counsel. Respectfully, in my judgment, the Company should reject your request as an unnecessary use of corporate resources.

To remind you, at its September 13, 2002, meeting, the Board of Directors of HealthSouth determined that F&J should be retained to conduct an "outside review" pertaining to various issues in connection with the Company's press release of August 27, 2002, including when Mr. Scrusby first learned of the potential material effect on the Company of the CMS rule change, apparently first transmitted on May 17, 2002. Also at that Board meeting, as you know, the Board authorized the Special Litigation Committee to retain counsel (and the Committee has retained the firm of Balch & Bingham of Birmingham, Alabama) to conduct a separate investigation with respect to issues raised in stockholder derivative suits filed in Alabama (and subsequently in Delaware).

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In an earlier paragraph of your letter, you imply that the F&J outside review may not be based on F&J's "independent" judgments as to the facts. This suggestion is without foundation. It is my understanding that the F&J investigation, employing more than a dozen attorneys and financial experts, has already encompassed nearly two dozen personal interviews of senior management and key employees, as well as the careful review of several hundred thousand pages of emails and other internal documents.

You imply that this extensive F&J review may not be "outside the control of management." This is not correct. In fact, from the outset Company management committed to the F&J team that it had total independent judgment in the conduct of its review. You and your attorneys can confirm with F&J that that commitment has been and continues to be strictly maintained.

Of course, you have the right to retain your own personal attorneys at your expense. Regarding their access to the F&J current and future work product, I see no problem with that request, subject to appropriate safeguards to protect the privileged nature of the information until such time as the Board elects to make it public. You and all the Board have already heard the full F&J preliminary report read to you during the October 1, 2002, Board meeting. You and other Board members will have access to the final report at the time it is issued to the Board.

2. I am referring your suggestions and questions regarding procedural and Board governance matters to the Company's General Counsel, Mr. William Horton. I also encourage you to raise them with the full Board at its next meeting and with Mr. May, as Chair of the Special Corporate Governance Committee.

Regarding your other points, it is my understanding that the resumes of Mr. Hanson and Mr. May were sent out to all Board members prior to the meetings at which they were elected, and that there were no votes against their election. It is my understanding that you did not raise any of the questions or concerns during those Board meetings regarding their backgrounds or qualifications. You are certainly free to take up these and any other questions raised in your letter with them directly or at the next Board meeting.

Regarding your reference to the need for "good corporate practices" and notice procedures, I would encourage you to propose those to the full Board for discussion and consideration. As you know, at the October 1 Board meeting, Mr. Scrusby took an important initiative on the issue of corporate governance. He nominated Mr. Robert May as Chair and two other Board members to serve on a Special Corporate Governance Committee. Mr. Scrusby's initiative was unanimously endorsed by the Board, yourself included.

I know that your suggestions and concerns on these corporate governance issues are and will be appreciated and welcomed by Mr. Scrusby and Mr. May, as well as the other directors.

3. Please refer to the first two sentences of item 2, above.

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4. Please refer to the first two sentences of item 2, above. I have passed your request for copies of all previously approved minutes on to Brad Hale.

5. a. I attach a copy of the SEC notice of investigation. There has been no written response on behalf of the Company, although the Company's counsel has been in touch with the SEC to establish a protocol for production of the requested documents.

Regarding making available future correspondence to and from the SEC, you and the other Board members are always welcome to see such correspondence.

b. I have no objection to your reviewing the Patton Boggs engagement letter, but that is a decision I defer to Mr. Horton.

c. I spoke to the SEC officials after receipt of their investigation and they made no verbal comments indicating that the scope of the matters under review by them was any different than the contents of their notice of investigation.

d. I refer to Mr. Horton your request that the CCC be provided with copies of all "information" provided to the SEC as well as any change in the scope of their investigation or any additional issues identified by staff. If such a request were granted to the CCC, it arguably must also be granted to any individual Board member. There are obvious logistical, practical, and possible SEC confidentiality concerns with agreeing ahead of time to such a blanket request.

Regarding your request for updates concerning the investigation, I see no reason why this cannot be done within the constraints of confidentiality consistent with an SEC ongoing investigation - again, with the understanding that there arguably is no basis for distinguishing members of the CCC from other Board members.

e. Mr. Horton will respond to your request concerning the Company's present document retention policy.

I hope this letter has been responsive to yours. I look forward to discussing each of these points with you or your personal attorney - either myself or in conjunction with Mr. Horton.

Sincerely,

  
Lanny J. Davis  
Counsel to HealthSouth Corporation

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