

From: Davis, Lanny
To: Scarushy, Richard
CC: Hervey, Jason; Eric R. Hanson (E-mail)
Subject: CONFIDENTIAL -- ATTORNEY-CLIENT PRIVILEGED
Date: 09/22/2002 06:24:09 PM EST

Richard -- It was good talking to you today.

As we have previously discussed, I would appreciate a clear statement from you tomorrow concerning my role as counsel or co-counsel in all the litigation.

As we discussed, I need to immediately file an appearance in the court in the class action cases as counsel to the individual defendants and co-counsel (with Haskell Slaughter) to the Company. (I have already told Mike Redeker today that he and Tom Krebs would remain the lead in the class action case so this would not affect them.) As we discussed, there are four important reasons for me to be "at the table" in all the cases. First, I will be committed to representing you personally even if a conflict arises in representing the Company and you at the same time. Second, as Company counsel as well as and counsel to individual management, my fees should be mostly covered by your D&O insurance. Third, since I have extensive experience as class action defense counsel in this type of case, the media will regard my role as a litigation counsel more credibly than if I am just identified as doing public relations. This has already been mentioned in the WSJ/NYTs reporting. Finally, internally at Patton Boggs, as I explained to Eric Hanson, I should have no problem clearing the representation so long as I am defense counsel in the litigation. 

I believe you stated that Alston and Bird may have been retained for the class action case. Since I will be co-counseling this with Haskell Slaughter, I do not believe we need Alston and Bird at this time.

Regarding the SEC investigation, I and Patton Boggs will also be representing the Company as well as you and the management team personally to the extent it becomes necessary. I have also told the SEC that Fulbright (Peter Unger) will also be involved in discussions with the SEC to the extent it is helpful in the conduct of their outside review. I feel strongly that to avoid compromising Fulbright's outside review, they should not be seen as representing the Company as an advocate. I would appreciate your emphasizing this point tomorrow.

I assume that Bill Horton is fine with all this.

As we also discussed, It would also be helpful for me to enter appearances as company co-counsel to Tom Fox in the Qui Tam case and individual counsel to the named management defendants (if any) so I can be in a position to approach the Justice Department re. a settlement. Perhaps I might as well also enter an appearance in the derivative case on the same basis. The latter, however, could well be stayed pending the SLC's investigation.

Going forward, I will remain in daily (hourly sometimes) ongoing consultation and communications with Eric Hanson and Jason Hervey on all matters, particularly the coordination of legal/media/lobbying strategies.

Agenda

The agenda for tomorrow is as follows. I understand I will start with a meeting at your house.

1. Fulbright Report. Goal: Start with review of Richard Scruschy knowledge of CMS rule change, time line, etc., in order to make findings on this issue in the next ten days. Then proceed with Company review. Another possible subject for review: an assessment of assessment of financial strength of company, financial reporting, etc.

2. Pro-active press stories in two areas, neither of which focuses on HealthSouth:

--Why and how CMS new rule was born in bureaucratic confusion and will have devastating impact on seniors -- this is not about HealthSouth but about the confused CMS. Core example of confusion is Mr. Scully -- who when he presided over the FAH that strongly supported concurrent therapy, then he allowed 1753 to issue, then he made it effective only July 1, then he said it was a "gray area," then a week later he said it was not, etc. W. Post target newspaper, or National Journal/Roll Call.

--Growing opposition to CMS new rule among national associations, senior citizens, physical therapists, hospitals, and other providers and caretakers concerned about senior citizens who rely on Medicare. NY Times is target/WSJ too.

3. Lobbying effort: Eric Hanson to report. Goal: To suspend implementation of new CMS rule pending rulemaking procedure, with notice and comment.

4. Grassroots organization: To assist in the two non-HealthSouth press stories described in #2 and the lobbying effort described in #3, we need to retain an outside organization that specializes in generating grassroots communications -- by email and phone/mail. I have consulted with many people over the weekend, and I have two recommendations. A "Coalition" of hospitals, PT providers, therapists, and senior citizen groups can be organized, and individuals can be encouraged to communicate their opposition.

5. Third Party Legal Challenge to CMS: Preparing a case that might be filed by representatives of seniors, physical therapists and hospitals, including their trade associations, seeking to enjoin the new CMS rule until a valid rulemaking, notice and comment, etc., has been conducted. We have assessed this case already, as have your other attorneys. I believe it suggests a strong likelihood of success.

Look forward to seeing you tomorrow. And thanks to you, Eric and Jason for trusting me so much as you have. I promise you I am totally 100% committed.

From: Davis, Lanny <L.Davis@PattonBoggs.com>
Sent: Saturday, September 28, 2002 6:46 PM
To: Hervey, Jason, Scrushy, Richard, mhansen@khhte.com, hirsch@fulbright.com, Horton, Bill, O'Connor, Eileen, Goldberg, Adam
Subject: Next week press plan

Attorney Client Privileged

In response to Jason and Richard emails today:

Will call tomorrow (Sun) and patch in each of you above at 2 pm EST before our 4 pm PR team conf call to discuss press plan for next week.

Richard and I will call into Denton Providence Capital meeting at 4 pm EST on Tuesday. I will join Hal at Tues Board meeting.

Earliest we can release Fulbright report is Thursday or Friday, since S.E.C. must have Fulbright report at least 24-48 hours before public release. We could do press conference on Friday and NY Times will run story on Sunday, which is maximum impact day.

If you try to do anything with Board members on Tuesday or Wednesday about Fulbright report before complete release, it will lack credibility and, worse, diminish impact of Fulbright report when it is finally released.

But I'm open to ideas--how about leaking story on Tuesday afternoon to Birmingham paper, with headline "HealthSouth Board Members Receive Fulbright Report, Reaffirm Confidence In Scrushy Leadership." This might provide build-up for Friday am press conference, releasing complete report.

Let's talk tomorrow.

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deleting it from your system. Thank you.

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<http://www.pattonboggs.com>.

(2)

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**CONFIDENTIAL ATTORNEY WORK PRODUCT
FOR BOARD OF DIRECTORS EYES ONLY**

October 1, 2002

The Board of Directors of HealthSouth Corp.
One HealthSouth Parkway
Birmingham, Alabama 35243

HHEC 293-0300
Confidential Treatment
Requested by HealthSouth Corp.

Ladies and Gentlemen:

As you are aware, HealthSouth Corp. ("HealthSouth" or the "Company") and its Board of Directors have engaged Fulbright & Jaworski L.L.P. to represent them in an investigation by the Securities and Exchange Commission and to conduct a review of the Company's disclosures and related events. Among other things, we have been asked to assess, to the extent ascertainable, whether (i) at the time of the exercise of options and sale of HealthSouth Common Stock by Richard M. Scruschy on or about May 14, 2002 (the "Option Exercise and Sale") or (ii) at the time of transfer of HealthSouth Common Stock to the Company by Mr. Scruschy in satisfaction of the principal amount of loans from HealthSouth on or about July 31, 2002 (the "Loan Repayment"), he was aware of the potential effect on the Company of Transmittal 1753 of the MEDICARE CARRIERS MANUAL or the policy expressed therein ("Transmittal 1753").

We understand that the Board of Directors has formed a special investigatory committee (the "Special Committee") to review a variety of allegations made against the Company in a shareholder derivative litigation, including allegations relating to the Loan Repayment. The Special Committee has retained its own independent counsel to assist the Special Committee in its review of these allegations. The independent members of the Board of Directors should look to the Special Committee and its independent counsel for their report on these and other matters.

Our review only began on September 24, 2002. We have begun to review documents and other materials produced by certain officers and employees of HealthSouth in response to a memorandum prepared at our request by the Company's General Counsel, William W. Horton, and the minutes of the Board of Directors and the committees of the Board of Directors. We have not yet received responses from all of the officers and employees to whom the memorandum was addressed or copies of minutes of all meetings of the Board of Directors or certain of its committees. In addition, we have reviewed and are continuing to review electronic data produced by HealthSouth consisting of the e-mail and application files of seventeen key

The Board of Directors of HealthSouth Corp.
October 1, 2002
Page 2

CONFIDENTIAL
ATTORNEY WORK PRODUCT

officers and directors.

Our review is far from complete, and we are awaiting additional data from certain officers and employees. In addition, we have conducted interviews with Richard M. Scrusby, William T. Owens, William W. Horton, Jeanie Davis, Frederick Schmitt, Jr. and Susan Jones Smith. We expect to conduct additional interviews with some or all of these individuals and to interview additional officers and employees before completing our investigation.

The Board of Directors has requested an update for its meeting on October 1, 2002, of the status of our investigation of the Option Exercise and Sale and the Loan Repayment. In the course of our preliminary work, we have not found any factual data that establish that Richard M. Scrusby was aware at the time of the Option Exercise and Sale or at the time of the Loan Repayment of the potential effect on the Company of Transmittal 1753. In the course of our preliminary work, we have determined that certain members of senior management other than Mr. Scrusby had varying levels of knowledge concerning Transmittal 1753 commencing no later than June 2002; however, we have not ascertained at this time that they disclosed such knowledge to Mr. Scrusby prior to early August.

We have not completed our investigation, and facts and circumstances that come to our attention during the course of our engagement may lead to a conclusion different than that suggested by the limited amount of materials we have reviewed to date. Accordingly, the Board of Directors should not view this letter as a conclusion with respect to any of the matters discussed herein or the potential outcome of any regulatory investigation or legal action. In addition, please note that this letter is not a comment on any other matter we have investigated or may be asked to investigate in the future.

This letter has been prepared solely for the purpose of updating the Board of Directors on the status of our investigation. The existence and contents of this letter are confidential and privileged information intended for the private use of the Board of Directors, and may not be used for any other purpose or quoted or disclosed to any third party, or referred to in any manner, without our express written consent. This letter may not be furnished to any other persons or entities without our prior written consent.

Very truly yours,



HHEC 293-0301
Confidential Treatment
Requested by HealthSouth Corp.

From: Hervey, Jason
Sent: Monday, October 7, 2002 3:29 PM
To: Scrushy, Richard
Subject: Fw: Re:

Hals response below.

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hervey, Jason <Jason.Hervey@healthsouth.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Mon Oct 07 14:28:49 2002
Subject: Re:

I am in with RS now and he wanted me to ask you. I guess we just missed you....want a ride in the humvee?

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hirsch, Hal <hhirsch@fulbright.com>
To: Hervey, Jason <Jason.Hervey@healthsouth.com>
Sent: Mon Oct 07 14:23:06 2002
Subject: Re:

This is not an exact science. What we did last time was cause the review respond to an artificial timetable without the best result. We will respond when you like or when we are complete. I suggest the latter which should be on or about a week from Friday. Could be less, could be more. Just as I discussed with RMS the other day.

-hnh

Hal M. Hirsch, Partner
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hhirsch@fulbright.com

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-----Original Message-----

From: Hervey, Jason <Jason.Hervey@healthsouth.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Mon Oct 07 14:16:58 2002
Subject: Re:

When you presented to us on oct 1st it was two weeks from then?

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hirsch, Hal <hhirsch@fulbright.com>
To: Hervey, Jason <Jason.Hervey@healthsouth.com>
Sent: Mon Oct 07 14:10:56 2002
Subject: Re:

Next Friday - two weeks.

-hmh
Hal M. Hirsch, Partner
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-----Original Message-----

From: ~~Hervey, Jason~~ <Jason.Hervey@healthsouth.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Mon Oct 07 14:06:04 2002
Subject:

Hello my friend. ~~With RS and when is due date for rs report?~~ This Friday
or
next?

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)
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deleting it from your computer. Thank you.

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in error, please notify me immediately by replying to this message and
deleting it from your computer. Thank you.

From: Hirsch, Hal <hhirsch@fulbright.com>
Sent: Friday, October 18, 2002 9:07 AM
To: Horton, Bill
Cc: Beckler, Richard, Kaplan, Carl
Subject: Re: Report

Morning:

I am to begin reviewing the draft Report today with submission to the Board on Tuesday. I have already heard Lanny's views this morning. I will give you a preview as appropriate. I continue my reticence that regardless of the statements concerning RMS it will leave open and troubling questions about the Transmittal and HS, as the HS/CMS review will not be completed for some time to come. Not that it is my provence, but since you inquire, I am very displeased with the draft press release as it seems not to improve any issues surrounding HS. I will call near noon as I free up.

-hmh

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-----Original Message-----

From: Horton, Bill <Bill.Horton@healthsouth.com>
To: Hal M. Hirsch (E-mail) <hhirsch@fulbright.com>
Sent: Thu Oct 17 23:37:31 2002
Subject: Report

What's the latest timing on the report presentation? I am scheduled for some travel next week, and want to make sure I'm on top of the situation.

Also, I remain interested in your reaction to the Powell Tate media proposal.

I appreciated your other offer(s) today, and will be back to you shortly.

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in error, please notify me immediately by replying to this message and deleting it from your computer. Thank you.

From: Horton, Bill
Sent: Saturday, October 19, 2002 10:14 PM
To: Hirsch, Hal
Subject: RE: HS Fulbright Report

Please make arrangements with Lanny to review the draft. Thanks.

Bill

William W. Horton
Executive Vice President and Corporate Counsel
HEALTHSOUTH Corporation
One HealthSouth Parkway
Birmingham, AL 35243
Telephone (205) 969-4977
Facsimile (205) 969-4730
bill.horton@healthsouth.com

-----Original Message-----

From: Hirsch, Hal [mailto:hhirsch@fulbright.com]
Sent: Saturday, October 19, 2002 6:06 PM
To: Horton, Bill
Subject: HS Fulbright Report

Bill:

We have just finished the penultimate draft of the Report due to the Board on Tuesday. I expect a copy near midnight. Lanny Davis has requested to see and comment on the Report in advance. Fulbright will not allow me to transmit a draft but, with your authority as General Counsel, I can allow him to read it our office tomorrow morning or read it to him. I therefore request your authority to do so. Please advise at your first opportunity.

Thank you.

-hmh

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-----Original Message-----

From: Davis, Lanny <LDavis@PattonBoggs.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Mon Oct 21 05:21:55 2002
Subject: Re: Urgent--Privileged Attorney Client and Work Product

I don't understand this message, Hal. You said in your email over weekend we could read penultimate draft. If not, then I need you to read the draft to RS et al. Will you respond to that portion of my email please?

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To learn more about our firm, please visit our website at <http://www.pattonboggs.com>.

From: Scrushy, Richard
Sent: Sunday, October 20, 2002 6:51 PM
To: ldavis@pattonboggs.com
Subject: Fbj report.

I do not believe we should give the full report to the press. We should force an executive summary or a press release to give to press and to post on the webb site. How can I agree to anything since I have not even seen the report. People are making plans for pr and I have not heard anything. Bob may is telling me how to run company and I feel like we are driving without lites at night. I think we should not trust the press and we should give them small sound bites and the first round should not have all information ie total info on what when who. I understand the s.e.c. Issue but just think the press will be everywhere with this story if you give them 15 pages. We will never hear the end of the story . They will have free range with enough information to print forever. We should just give them the highlites. Your thoughts. Richard

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hirsch, Hal [mailto:hhirsch@fulbright.com]
Sent: Monday, October 21, 2002 8:07 AM
To: R. Hanson Eric (E-mail)
Subject: FW: Urgent--Privileged Attorney Client and Work Product

Can you help me on this, please.
-hnh

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-----Original Message-----

From: Hirsch, Hal
Sent: Monday, October 21, 2002 7:25 AM
To: 'LDavis@PattonBoggs.com'
Subject: Re: Urgent--Privileged Attorney Client and Work Product

Dispite the issues of propriety, when the SEC demands advise as to who had pre-knowledge of the Report before its release, as it always does, do you really think that it is wise to say that RMS was given the opportunity to 'influence' the Report? This would undermine all F&J has done.

-hnh

Hal M. Hirsch, Partner
Fulbright & Jaworski, LLP

From: ~~Hirsch, Hal~~ <hhirsch@fulbright.com>
Sent: ~~Monday, October 21, 2002 6:16 AM~~
To: LDavis@PattonBoggs.com, AGoldberg@PattonBoggs.com, ehanson@usstrategies.com, Hervey, Jason, rpmay@aol.com, bobmay9788@msn.com, jlpowell@webershandwick.com, state@webershandwick.com, hschwartz@webershandwick.com, michael.deaver@edelman.com, hollis.rafkin-sax@edelman.com, ~~Scrushy, Richard~~
Subject: Re: Urgent--Privileged Attorney Client and Work Product

The document will be presented to the Board on Tuesday morning.

-hmh

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-----Original Message-----

From: Davis, Lanny <LDavis@PattonBoggs.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>; Goldberg, Adam <AGoldberg@PattonBoggs.com>; 'ehanson@usstrategies.com' <ehanson@usstrategies.com>; 'jason.hervey@healthsouth.com' <jason.hervey@healthsouth.com>; 'rpmay@aol.com' <rpmay@aol.com>; 'bobmay9788@msn.com' <bobmay9788@msn.com>; 'jlpowell@webershandwick.com' <jlpowell@webershandwick.com>; 'state@webershandwick.com' <state@webershandwick.com>; 'hschwartz@webershandwick.com' <hschwartz@webershandwick.com>; 'michael.deaver@edelman.com' <michael.deaver@edelman.com>; 'hollis.rafkin-sax@edelman.com' <hollis.rafkin-sax@edelman.com>; 'rscrushy@healthsouth.com' <rscrushy@healthsouth.com>
Sent: ~~Sun Oct 20 23:00:25 2002~~
Subject: Urgent--Privileged Attorney Client and Work Product

Talked to RS for one hour late tonite and conferred with Bob May too. RS

now

leans in favor of public release of complete Fulbright Report on Wed am after presentation to Board on Tues. Bob May agrees.

~~This is of course subject to everyone on this email list hearing the report.~~

~~read in full by Hal some time on Monday--and perhaps reading along with Hal~~

~~if he can email us penultimate draft, as he has indicated to me.~~

In my opinion, after discussion with most of you Sun nite, just releasing the first section on methodology and just last paragraph clearing RS will lack context and credibility. I also believe once everyone hears the full factual chronology in the Fulbright Report, all will conclude that it needs to be available to shareholders and the public, and that it provides a critical basis for accountability and remediation by the Board--something shareholders are demanding and the press is waiting for. Not releasing it also will look like a pullback on our prior commitment to transparency--with little credible explanation.

Adam--please set up conf call with all on the above email list so that

Hal

can read the report to all first thing in am. I will be out of town and returning to DC at 2 pm EST. I propose a second conf call at 4 pm EST to reach final judgments on strategy.

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To learn more about our firm, please visit our website at <http://www.pattonboggs.com>.

From: Horton, Bill
Sent: Friday, November 1, 2002 10:38 AM
To: hhirsch@fulbright.com, jmr@HSY.com
Cc: TLK@HSY.com
Subject: Re: Draft HealthSouth Press Release

Respectfully, if you would like the opportunity for a resolution without collateral damage, you're going to need to give me the opportunity to talk to RMS. I am working on this.

-----Original Message-----

From: Hirsch, Hal <hhirsch@fulbright.com>
To: 'Rediker, Michael' <jmr@HSY.com>; Horton, Bill <Bill.Horton@healthsouth.com>; Hirsch, Hal <hhirsch@fulbright.com>
CC: Krebs, Thomas <TLK@HSY.com>
Sent: Fri Nov 01 09:34:52 2002
Subject: RE: Draft HealthSouth Press Release

yes, now.
-hmh

Hal M. Hirsch, Partner
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-----Original Message-----

From: Rediker, Michael [mailto:jmr@HSY.com]

Sent: Friday, November 01, 2002 10:34 AM
To: 'Horton, Bill'; 'Hirsch, Hal'
Cc: Rediker, Michael; Krebs, Thomas
Subject: RE: Draft HealthSouth Press Release

Hal:

Let's have a conference call among you, Tom Krebs, Bill Horton and myself about this press release issue.

Thanks.

Mike Rediker

-----Original Message-----

From: Horton, Bill
To: 'Hirsch, Hal'
Cc: J. Michael Rediker (E-mail); Krebs Tom (E-mail)
Sent: 11/1/02 8:32 AM
Subject: RE: Draft HealthSouth Press Release

I have a number of concerns with this and would appreciate your calling me. Thanks.

-----Original Message-----

From: Hirsch, Hal [mailto:hhirsch@fulbright.com
<mailto:hhirsch@fulbright.com>]
Sent: Friday, November 01, 2002 8:28 AM
To: Horton, Bill
Cc: J. Michael Rediker (E-mail); Krebs Tom (E-mail)
Subject: Draft HealthSouth Press Release

Dear Bill:

Consistent with your call this morning, and advice that Lanny Davis has

left a message for you this day, please be advised that an important issue has arisen in regard to the Company's press release of October 30, 2002 and contemporaneous public statements made in behalf of the Company. Given the combination of the release and statements it may be perceived that the information provided to the public was not complete. Accordingly, it is essential that a new press release be issued today. A draft of this release is attached. You will recall that during a call placed by Richard Scrusby to me in D.C., with both you and Lanny Davis on the phone, that I advised

that
there must be no "color, connotation or description" of any quotation in
the
Review to which Richard stated that any reference to any quote would be
"the
quote." Please review the release at your first opportunity as this
matter
must be resolved with the issuance of this press release or a similar
release today. A copy is also set forth below. I raised this with Lanny
Davis last evening and again this morning to no avail as at this point.
Thank you.
-hnh

Privileged &
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DRAFT PRESS RELEASE -- NOVEMBER 1, 2002
BIRMINGHAM, Alabama - HEALTHSOUTH announced today that on October 31,
2002,
it provided to the Securities and Exchange Commission copies of all
reviews
prepared by Fulbright & Jaworski L.L.P. at the request of the
HEALTHSOUTH
Board of Directors. As stated in the Company's October 30, 2002 press
release, HEALTHSOUTH said that it will continue to cooperate fully in
all
respects with the SEC in its investigation.
Several press reports have raised questions relating to the results of
the
review undertaken at the request of HEALTHSOUTH Corporation by the law
firm
of Fulbright & Jaworski L.L.P. HEALTHSOUTH believes that it would be
helpful to add to the reports by the Company of the statements made by
Fulbright & Jaworski L.L.P. in the course of its ongoing review.
HEALTHSOUTH's October 30, 2002 press release quoted the following from
the
Fulbright & Jaworski L.L.P. review:
". . . Fulbright & Jaworski L.L.P. has uncovered no oral

interview or written document (including electronic data) that
establishes
that Mr. Scrusby was aware at the time of his option exercise and sale
of
HEALTHSOUTH common stock on May 14, 2002, of the pending issuance of
Transmittal 1753. Fulbright & Jaworski L.L.P. also has uncovered no

oral
interview or written document (including electronic data) that
establishes
that Mr. Scrushy knew prior to the time of the transfer by Mr. Scrushy
of
HEALTHSOUTH common stock to HEALTHSOUTH on or about July 31, 2002, in
satisfaction of the principal amount of a loan made to him by
HEALTHSOUTH
under its 1999 Executive Equity Loan Plan, of: (i) Transmittal 1753;
(ii)
the application of Transmittal 1753 to the Company's various outpatient
therapy services; or (iii) the transmittal's potential financial effect
on
the Company."
HEALTHSOUTH notes that the statements set forth in HEALTHSOUTH's October
30,
2002 press release, other than the direct quote of Fulbright & Jaworski
L.L.P., were an interpretation of Fulbright & Jaworski L.L.P.'s review
made
by HEALTHSOUTH and its representatives and were not statements made by
Fulbright & Jaworski L.L.P. Fulbright & Jaworski L.L.P.'s review
further
stated "The Board of Directors should not view anything in this letter
as a
conclusion with respect to the potential outcome of any regulatory
investigation or legal action. Fulbright & Jaworski L.L.P. expresses no

views as to the inferences that may be drawn from the facts and
circumstances contained in this letter."

<<30354998_11.DOC>>

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you.

—Original Message—

From: Scrusby, Richard <rscrusby@healthsouth.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Sat Nov 02 10:52:20 2002
Subject: Re: Discussions

We have a pro active business strategy. Hal you may not have noticed but I built this great company from an idea and a business card. I promise I have a plan my friend. Thanks rs

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)
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From: Horton, Bill
Sent: Saturday, November 2, 2002 12:12 PM
To: Scrushy, Richard
Subject: FW: Confidential and Privileged

See below. Lanny wants me to call him. Before I do, I wanted to know if we were still fighting over this, or if the message below is just Lanny being Lanny. Please email or call me in the office (969-4977) and let me know where you are on all this. Thanks.

-----Original Message-----

From: Davis, Lanny [mailto:LDavis@PattonBoggs.com]
Sent: Saturday, November 02, 2002 10:35 AM
To: Horton, Bill
Subject: Fw: Confidential and Privileged

FYI--please page me ayc over weekend.

-----Original Message-----

From: Davis, Lanny <LDavis@PattonBoggs.com>
To: 'hhirsch@fulbright.com' <hhirsch@fulbright.com>
Sent: Sat Nov 02 11:17:01 2002
Subject: Confidential and Privileged

Privileged: Attorney Client and Work Product

To: Hal Hirsch Esq., Fulbright and Jaworski LLP

From: Lanny J Davis, Patton Boggs LLP

Date: Saturday, Nov. 2, 2002

Per your request, this is to notify you that Mr. Scrushy has reluctantly agreed to put the press release out, per the last version you sent me last night. He asked me to inform you and your firm that the only reason he agreed to do so is that Fubright demanded that he do so, that he does not believe it is necessary to do so, that he does so very unhappily, and that he believes the Board of Directors will share his unhappiness about being forced to do this by Fulbright.

As you know, Patton Boggs, representing the unanimous views of numerous

senior partners with expertise in these matters, entirely agrees with Mr Scrushy and advised him that this release advanced by Fulbright for publication is neither necessary nor adviseable. We therefore urge Fulbright to reconsider and withdraw its demand. If for any reason Fulbright withdraws its demand, please notify me by Sunday evening, Nov. 3, no later than 6 pm. After that time, HealthSouth has informed me it will issue the release as Fulbright has demanded.

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To learn more about our firm, please visit our website at <http://www.pattonboggs.com>.

From: Hirsch, Hal <hhirsch@fulbright.com>
Sent: Saturday, November 2, 2002 12:43 PM
To: Scrushy, Richard
Subject: Re: Discussions

I am not being flip; my comments are directed to an overall business strategy to extricate you and HS from the apparently minor issues in this shark infested business environment. Not a business plan to run or build HS. Business structure and restructure is what I have done very successfully for over 20 years. Helping corporate executives be informed of EVERY business and legal option and then have THEM make the right choice - not make it for them and to cause them to hear EVERY voice - not just the ones they want to hear or only those that want to be heard. I am retained for my astute advice not to run someone else's company. Advice is to heard by a CEO not followed blindly; all that I do is provide the very best advice. Your discision is whether to listen to it and then judge it against all else that is competing for your ear. Take care of yourself, as we have discussed - you never know who wants what and why from you.

-hnh

Hal M. Hirsch, Partner
Fulbright & Jaworski, LLP
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New York, New York 10103
(212) 318-3105 (dir.)
(201) 788-9800 (cell)
(212) 318-3400 (fax)
hhirsch@fulbright.com

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From: Davis, Lanny <LDavis@PattonBoggs.com>
Sent: Saturday, November 2, 2002 5:26 PM
To: Scrushy, Richard
Subject: Re: Denton

Call me re Denton. You asked me to invite him to Nov 11 Board meeting and I did. But let's discuss further. Re: Hal, please email his first message to me. Have you told him you are terminating Fulbright? After you tell him, this will cease. Let's discuss.

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From: Davis, Lanny <LDavis@PattonBoggs.com>
Sent: Saturday, November 2, 2002 6:28 PM
To: hhirsch@fulbright.com
Cc: Scrushy, Richard, ehanson@usstrategies.com
Subject: Please note

It is 5 pm Sat. Richard has just emailed me and asked me to ask you to stop emailing him and calling him LFN, effective immediately.

As you know, this is a client whom I recommended should hire you and Fulbright. With no personal disrespect intended, because I know Richard likes you personally, I am asking you to respect my client's wishes.

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From: Horton, Bill
Sent: Sunday, November 3, 2002 10:04 PM
To: Hervey, Jason, Scrushy, Richard
Subject: RE: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release

Fulbright affirmatively wants it out before the bell. I agree, because otherwise it's going to get caught up in Tuesday's earnings release and further muddle up what will already be a rough Tuesday.

-----Original Message-----

From: Hervey, Jason
Sent: Sunday, November 03, 2002 9:03 PM
To: Horton, Bill; Scrushy, Richard
Subject: Re: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release

If that a fulbright demand? What is the reason to do that? There are different ramifications to a before or after bell tactic. Jh

-----Original Message-----

From: Horton, Bill <Bill.Horton@healthsouth.com>
To: Scrushy, Richard <rscrushy@healthsouth.com>; Hervey, Jason <Jason.Hervey@healthsouth.com>
Sent: Sun Nov 03 20:56:03 2002
Subject: RE: Re: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release

Have spoken with both Hal and Lanny. F&J has not backed down. Accordingly, I am planning in the next few minutes to tee this up to go out around 7:30 Eastern Time tomorrow (before market opening). Please let me know if you have any questions or other instructions. Thanks.

-----Original Message-----

From: Scrushy, Richard
Sent: Sunday, November 03, 2002 4:05 PM
To: Horton, Bill
Subject: Fw: Re: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release
Importance: High

Can you work under this time frame? I think we should give them until 6pm deadline. Thanks rs

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hervey, Jason <Jason.Hervey@healthsouth.com>
To: Horton, Bill <Bill.Horton@healthsouth.com>; Scrushy, Richard <rscrushy@healthsouth.com>; 'ldavis@pattonboggs.com' <ldavis@pattonboggs.com>
Sent: Sun Nov 03 16:02:10 2002
Subject: Re: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release

As previously written by lanny in certain correspondence by and between lanny and hal, we have till tonight at 6:00pm for Hal on behalf of Fulbright & Jaworski to withdraw its demand for HS to send out the press release that is attached below to this most recent text correspondence.

I am under the impression (presumably like most) that ultimately Hal on behalf of F&J will NOT withdraw its demand and we will be faced with actually releasing this press release. There are 2 ways to go, before or after the bell. I know that we have all had conversations about the specific advantages/concerns about either tactic.

Lanny, please let us know once you receive either "no or go" from Hal. We will then go from there.

-----Original Message-----

From: Horton, Bill <Bill.Horton@healthsouth.com>
To: Scrushy, Richard <rscrushy@healthsouth.com>; Hervey, Jason <Jason.Hervey@healthsouth.com>; Lanny J. Davis (E-mail) <ldavis@pattonboggs.com>
Sent: Sun Nov 03 14:54:36 2002
Subject: ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL -- Fulbright/SEC press release

Attached and set forth as text below is the version of the proposed press release I received from Hal Hirsch Friday night, with the first paragraph completed/corrected to reflect the actual earnings release information. I have received no information at this point indicating

that this is not to go out, so I am working on the assumption that it is. Richard, if you will please confirm that to me and advise of when you want it to be released, I will take care of it. Of course, if the plan is different, please let me know that as well. Thanks.

Bill

FOR IMMEDIATE RELEASE
November 3, 2002

HEALTHSOUTH CONFIRMS SCHEDULED EARNINGS
RELEASE, ADDS COMMENT ON SEC STATUS AND FULBRIGHT REPORT

BIRMINGHAM, Alabama - HEALTHSOUTH Corporation (NYSE: HRC) today confirmed its plans to announce third quarter earnings on Tuesday, November 5. HEALTHSOUTH will hold a conference call to discuss its third quarter results at 9:00 a.m. Central Standard Time on Tuesday, November 5, 2002. Simultaneously with the conference call, a webcast of the call will be available to interested parties at www.healthsouth.com via an Internet link under the "Investor Relations" section. A replay of the call will be available at the same Internet site address for 15 days following the call.

HEALTHSOUTH also announced that as part of its continuing cooperation with the Securities and Exchange Commission, it delivered to the SEC this week a copy of Fulbright & Jaworski L.L.P.'s previously announced review and other documents responsive to the SEC's document request.

As previously reported, HEALTHSOUTH's October 30, 2002 press release reporting the results of the review by Fulbright & Jaworski L.L.P. relating to the timing of stock and loan repayments transactions in May and July 2002, respectively, of Richard M. Scruschy, Chairman of the Board of HealthSouth, quoted the following from the Fulbright & Jaworski L.L.P. review:

"... Fulbright & Jaworski L.L.P. has uncovered no oral interview or written document (including electronic data) that establishes that Mr. Scruschy was aware at the time of his option exercise and sale of HEALTHSOUTH common stock on May 14, 2002, of the pending issuance of Transmittal 1753. Fulbright & Jaworski L.L.P. also has uncovered no oral interview or written document (including electronic data) that establishes that Mr. Scruschy knew prior to the time of the transfer by Mr. Scruschy of HEALTHSOUTH common stock to HEALTHSOUTH on or about July 31, 2002, in satisfaction of the principal amount of a loan made to him by HEALTHSOUTH under its 1999 Executive Equity Loan Plan, of: (i) Transmittal 1753; (ii) the application of Transmittal 1753 to the Company's various outpatient therapy services; or (iii) the transmittal's potential financial effect on the Company."

Fulbright & Jaworski L.L.P.'s statements and conclusions are confined to the facts it reviewed and its October 29, 2002, report to the HEALTHSOUTH Board of Directors. Fulbright & Jaworski L.L.P.'s report further stated, "Fulbright & Jaworski L.L.P. expresses no views as to the inferences that may be drawn from the facts and circumstances contained in this letter." All other public statements are analyses by others.

HEALTHSOUTH is the nation's largest provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services, with approximately 1,800 locations in all 50 states, the United Kingdom, Australia, Puerto Rico, Saudi Arabia and Canada. HEALTHSOUTH can be found on the Web at <www.healthsouth.com>

Statements contained in this press release which are not historical facts are forward-looking statements. Without limiting the generality of the preceding statement, all statements in this press release concerning or relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, HEALTHSOUTH, through its senior management, may from time to time make forward-looking public statements concerning the matters described herein. Such forward-looking statements are necessarily estimates based upon current information, involve a number of risks and uncertainties and are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. HEALTHSOUTH's actual results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors, including those identified in this press release and in the public filings made by HEALTHSOUTH with the Securities and Exchange Commission, including HEALTHSOUTH's Annual Report on Form 10-K for the year ended December 31, 2001 and its Quarterly Reports on Form 10-Q, and forward-looking statements contained in this press release or in other public statements of HEALTHSOUTH or its senior management should be considered in light of those factors. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements.

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For more information, contact:

Investor Relations: Jason Brown, (205) 968-4429
Media: HEALTHSOUTH Public Relations, (205) 969-7584

<<AddtlFulbrightrel.doc>>

From: Davis, Lanny <LDavis@PattonBoggs.com>
Sent: Monday, November 4, 2002 6:39 AM
To: Scrushy, Richard
Cc: Hervey, Jason, ehanson@usstrategies.com, Sjoquist, Mary
Subject: URGENT--Attorney Client Privileged

Backdoor conversation yesterday between Hirsch and Horton without my knowledge almost did us in again by blowing up importance of release.

Only thanks to Jason late last night did I learn of it and head it off by calling Horton. I told him we did not need to issue release until 2 or 3 pm today. He told me he would await your instruction.

We must cutoff FandJ this morning--not this afternoon, but immediately--before more hamis done, other than Peter Unger, and only if he is willing to be supervised by me and Mary Sjoquist, and not by Horton, who is the focus of the Board's investigation (and Fand J's!) and likely the S.E.C.'s. At the very least Horton's effort to convince Unger to assert a privilege and withhold documents from the S.E.C. without consultation with me constitutes a potential conflict of interest for him and the Company.

May I communicate this directly to Hal and Peter on your behalf?

Please email me or call me immediately if the answer is yes. And then I will arrange three-way call with you, me, and Peter.

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Harvey, Jason

From: Scrushy, Richard
Sent: Friday, November 08, 2002 9:15 AM
To: Harvey, Jason
Subject: Fw: RE: Thank You

Keep this to yourself. Thanks rs

Sent from my BlackBerry Wireless Handheld (www.BlackBerry.net)

-----Original Message-----

From: Hirsch, Hal <hhirsch@fulbright.com>
To: Scrushy, Richard <rscrushy@healthsouth.com>
Sent: Fri Nov 08 07:38:24 2002
Subject: RE: Thank You

THESE ARE THOUGHTS OF HAL HIRSCH AND NOT FULBRIGHT & JAWORSKI, LLP - TAKE THEM AS YOU LIKE.

Richard:

Like or believe it or not, I have always been there for you and your company and have suffered greatly for it. Your reactions to all that has happened in regard to all that you and the Company have been through is a direct reaction to your relying upon the promise of Lanny Davis that the media and his vision will be your magic bullet. He seems to tell you what you want to hear and when it does not work out he seems to find a fall guy. He has convinced you now that it is me. That is because Lanny Davis FILTERS everything that you hear. Ever wonder why he had mouths all of your people including officers, lawyers and new directors. The billing issues arose because Davis advised that HE would determine how much and if we got paid. From the start Davis has tried to USE the reviews as media props not as you had desired to find out the truth. If they were used as corporate America uses them and the SEC views them then your release and media statements would have said something like, "Scrushy Unaware of 1753 when he sold his stock." That is what we said. Other than being in the Clinton White House as a 'Lawyer' what do you think his media training and experience is? I do not know - do you? Who brought the New York Times to your home? Lanny Davis just did to me on Tuesday with the New York Times what he did to you. I started a business called Corporate Diagnostic with Kemp, Marsh McClennen and others which Davis destroyed in the press. I am dropping out of due to the embarrassment. Listen to your other advisers and get some distance from Davis, you and your company need it. My work is and has been your salvation, particularly given how well the reviews have been received by the SEC. Their use in the media has been dumb but you refuse to listen to anyone but Davis. Why. Please open your ears to the other great advisers you have - new and old - other than me. Davis may wish to push Rediker and others away but they are smart and not under Davis' influence. KEEP YOUR OWN COUNSEL. Did you ever REALLY do diligence on Davis' other clients before you fell under his spell? I have been representing billion dollar companies and have worked out the problems of HUNDREDS OF COMPANIES BUSINESS, LEGAL AND FINANCIAL PROBLEMS FOR OVER 20 YEARS; how many do you think Davis has worked out. I have tutored Davis as to why I cannot withdraw from the SEC representation of HS because it would devastate HS and the capital markets, not to speak of what the SEC, DOJ, FBI and other will think and the confidence that may be lost. Nonetheless, Davis pushes us out. Do you know why; THE MEDIA GAME HAS BEEN A FAILURE. Even the media itself says that. Davis must blame someone. The review is as good a result as any company in this environment could have as a tool. But it is just a tool not magic. The media is not your friend. They make money by writing about problems - you know that. The last vestige of the CMS report tells nothing of you but what your employees knew; THE EXACT INFORMATION THAT YOU AND THE BOARD WANT SO BADLY. Maybe Davis' problem is that the report will NOT blame the employees as he has suggested. You have told me so many times how you need these people. When Davis filters my statements and access to you, as he does with so many other, how do you know what is even going on? My invoice is in your office. I only pushed payment because Davis said that we would NOT get paid. You just do not know how Davis is perceived to be running you behind your back. Who wanted Bob May and the outside Lead Director to 'help' run YOUR COMPANY. Do you remember calling me so many times troubled by this. Who is screaming

transparency when the press is blaming 'bad press' on the HealthSouth problems. NOTE THAT EVERY TIME I SPEAK OR WRITE TO YOU, YOU EITHER TELL DAVIS OR SEND HIM A COPY OF IT. HE THEN TELLS YOU WHY HE IS RIGHT AND WHAT YOU SHOULD SAY - HE SPINS YOU. I have abandoned Corporate Diagnostics, a \$20-50 million PRE SOLD business idea that I started in June that is just now taking off. I am going to severely limit my role in HealthSouth. This is all because of Davis looking out for Davis. I am distancing myself from him as I am tired of being professionally and emotionally hurt by him. I never wanted anything from you and never wanted any glory or press for myself or my Firm. All you ever got from me was damn good advice and results. Even the best bottle of wine is crap if you put it into a cracked glass. You need to VERIFY Davis' advice with others. I suggest ANYONE though since Rediker has all the facts and is lead of your litigation team, that might be a good place to start. I would appreciate you not sharing my counsel to you with others as IT WILL JUST MAKE MY BLEEDING ULCER A GREAT DEAL WORSE. If by some fluke you wish to talk to me you are always welcome to call - even on the weekends. I hope that you and your wonderful family are well.

-hmh

Hal M. Hirsch, Partner
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hhirsch@fulbright.com

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-----Original Message-----

From: Scrushy, Richard [mailto:rscrushy@healthsouth.com]
Sent: Friday, November 08, 2002 7:18 AM
To: 'hhirsch@fulbright.com'
Cc: 'ldavis@pattonboggs.com'
Subject: Thankyou

Hal as the chairman of the Board of Directors of Healthsouth I am informing you that we the Board have decided that we have all the information we need relative to the review your firm was performing on our company. The 100000 dollars is more than we want to spend for additional review. Have Tom drop me a note as to what his report would give us. I would like for you to send me directly any information you have to date that you expect us to pay for. After review I will let you know if we want any additional information. I am very unhappy with your forcing this last press release and the way you handled the letters after the review. There should be no more billing us on the review to include FTI. Send me what you have and return all files and property except things that Peter Ungar needs for his work with the S.E.C.. I would like to think you would be big enough to understand and respect our position and decisions without destroying the opportunity to have a future relationship. I will be back in the office on Tuesday and I will review your invoice then and if I believe it is in order I will process for payment as we pay all other bills. Where is your bill? I have not seen it. Did you send it to me. This noise you made in the last few days demanding payment really makes me mad as hell. We pay our bills. You know this and this bickering is unnecessary. Hal I need to give you a little advice about winning friends and influencing people. I have had it with your running over me and demanding Board Meetings. If I called a board meeting to just discuss something you forced on me what do you think the vote would be? I have been the Chairman for 19 years. Now send me your bill and I will take care of it next week and send me any additional information you have and stop the clock on the review. If you want to throw another one of your tantrums and not let us work with Peter then please transition in a professional way. You see the threats of last week were just too much. Richard