

**Hirsch, Hal**

**From:** Hirsch, Hal  
**Sent:** Tuesday, October 29, 2002 1:03 PM  
**To:** Gold, Neil  
**Subject:** Re: PRIVILEGED AND CONFIDENTIAL

Carl and I told Horton much of what you stated though we all acknowledge a lack of control. Horton is working on improving the statement. Be good.

-hmh

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

**From:** Gold, Neil <ngold@fulbright.com>  
**To:** Hirsch, Hal <hhirsch@fulbright.com>  
**CC:** Galant, Felice <fgalant@fulbright.com>; deButts, Robert <rdebutts@fulbright.com>  
**Sent:** Tue Oct 29 11:52:58 2002  
**Subject:** RE: PRIVILEGED AND CONFIDENTIAL

Hal-This is hilarious. Is it a parody or is it for real? A few thoughts and questions:

1. I did not know we had the power to "clear" Richard. In fact our letter says quite the contrary.
  2. What is the legal definition of "inkling"? Is it more than a scintilla?
  3. Do these idiots realize that two months after May 14 is July 14?
  4. Our investigation began on September 24, not September 17, and was essentially completed (except for the supplemental reports) by October 21, a period of four, not six, weeks.
  5. We did not review 59,000 documents and 546,300 pages. We merely applied our search parameters to those documents and pages. Our report specifically states that we did not examine documents not responsive to the search terms.
  6. Our "conclusion" is not stated accurately as it omits the "In view of..." clause that begins the conclusion in today's letter. To be accurate, the release would have to state ".....Fulbright & Jaworski L.L.P. has uncovered".
  7. There is no way to confirm a person's "absence of knowledge".
- These are just top of the head thoughts about this. Have a good flight.

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

**From:** Hirsch, Hal  
**Sent:** Tuesday, October 29, 2002 12:08 PM  
**To:** Gold, Neil; Galant, Felice  
**Subject:** FW: PRIVILEGED AND CONFIDENTIAL

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**CONFIDENTIAL TREATMENT REQUESTED**  
By Dechert LLP on behalf of its client

FJ 010829

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

From: Hirsch, Hal  
Sent: Tuesday, October 29, 2002 11:39 AM  
To: 'Horton, Bill'; Kaplan, Carl  
Subject: RE: PRIVILEGED AND CONFIDENTIAL

My reply was contained in our oral discussions this morning with Carl. Thank you for seeking our thoughts in this matter and appreciating our concerns.

-hmh

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

From: Horton, Bill [mailto:Bill.Horton@healthsouth.com]  
Sent: Tuesday, October 29, 2002 10:38 AM  
To: 'Hirsch, Hal'  
Subject: RE: PRIVILEGED AND CONFIDENTIAL

Please advise ASAP of corrections/suggestions/clarifications. Thanks.

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

From: Hirsch, Hal [mailto:hhirsch@fulbright.com]  
Sent: Tuesday, October 29, 2002 9:33 AM  
To: Horton, Bill  
Subject: RE: PRIVILEGED AND CONFIDENTIAL

Bill:

Thank you for send us a copy of the proposed press release which we have not seen nor been apprised of prior hereto. This press release goes beyond what F&J set forth in the Reports that we presented to the Board. It would be very unfortunate if the Company reported publicly information that was inconsistent, hence creating a friction and problem for the Company.

-hmh

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CONFIDENTIAL TREATMENT REQUESTED  
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-----Original Message-----

From: Horton, Bill (mailto:Bill.Horton@healthsouth.com)  
Sent: Tuesday, October 29, 2002 10:23 AM  
To: Hal M. Hirsch (E-mail)  
Subject: PRIVILEGED AND CONFIDENTIAL  
Importance: High

Set forth below is the text of a draft press release apparently prepared by Lanny. I have various comments and changes, but in particular I would like to know (a) is the quote attributed to your report accurate, (b) if we quote from your report directly (as opposed to paraphrasing or summarizing), is it your position that we then have to provide the report immediately to the SEC, and (c) do you guys like to be identified as being from Houston?

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For Release: Tuesday, October 29, 2002  
For further information, contact:

HealthSouth Chairman Richard Scruschy Cleared by Outside Investigation  
Of Advance Knowledge of Medicare Rule Change Prior to Stock Transactions

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Richard Scruschy, Chairman of HealthSouth Corporation was cleared by an outside investigation conducted by a national law firm of all allegations of inside knowledge concerning the impact of a Medicare reimbursement rule change prior to stock and loan repayment transactions in May and July 2002.

Fulbright & Jaworski, a national law firm based in Houston, Texas, concluded that Mr. Scruschy had no inkling or knowledge of any Medicare reimbursement rule change or its financial impact on the Company until two months after he sold stock on May 14 due to expiring stock options and a week after he had repaid a stock loan on July 31.

Fulbright reached its findings after concluding an extensive six-week investigation that began on September 17. Fulbright's outside review involved interviews with dozens of key HealthSouth employees and senior managers, members of the Board of Directors, and others outside the Company and included the review of internal Company email, documents, spread sheets, and other types of electronic data from approximately 59,000 documents totaling 546,300 pages.

The Fulbright Report concluded:

"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 the his option exercise and sale of HealthSouth common stock on May 14, 2002, of the pending issuance of Transmittal 1753 [the Medicare rule change]. 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 [the Medicare reimbursement rule change]; (ii) the application of Transmittal 1753 [the reimbursement rule change] to the Company's various outpatient therapy services; or (iii) the Transmittal's potential financial effect on the Company."

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By Dechert LLP on behalf of its client

FJ 010831

The Company says that it will continue to cooperate fully in all respects with the SEC in their investigation of these matters, of which the Company was first aware on September 18. The Company had notified the SEC on September 15 that it would fully cooperate and turn over all internal investigations in the event the SEC conducted an inquiry concerning Mr. Scrusby's stock transactions.

"This thorough and independent review conducted by Fulbright and Jaworski puts to rest any question whether Mr. Scrusby had any inkling or knowledge of the Medicare reimbursement rule change prior to his stock transactions in May and July 2002," said independent director Mr. Robert May, chairman of the Board's Special Corporate Governance Committee and Special Litigation Committee. "This report confirms what Mr. Scrusby has been stating from the outset."

"I am pleased by Fulbright's confirmation of the facts and the truth concerning my absence of any knowledge of the Medicare reimbursement rule change prior to my stock transactions," Mr. Scrusby said.

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