

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ALABAMA

IN RE HEALTHSOUTH CORP. ERISA LITIGATION

CV-03-BE-1700

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NOTICE OF PROPOSED SETTLEMENT OF ERISA CLASS ACTION LITIGATION,
SETTLEMENT FAIRNESS HEARING, AND
MOTION FOR ATTORNEYS' FEES AND
REIMBURSEMENT OF EXPENSES

TO: ANY PERSON WHO WAS A PARTICIPANT IN THE HEALTHSOUTH CORPORATION
EMPLOYEE STOCK BENEFIT PLAN AT ANY TIME FROM JANUARY 1, 1996, THROUGH
JUNE 3, 2005,

OR

A BENEFICIARY, ALTERNATE PAYEE, REPRESENTATIVE, OR SUCCESSOR-IN-INTEREST OF
ANY SUCH PERSON

KEY FACTS

A federal court authorized this Notice. This is not a solicitation from a lawyer.

- The *Court* has preliminarily approved a proposed settlement of a class action lawsuit brought under the Employee Retirement Income Security Act (the "*Settlement*"). The *Settlement* is with all of the Defendants in the litigation. The *Settlement* will provide for payments to the HealthSouth Corporation Employee Stock Benefit Plan (the "*Plan*") and for allocation of those payments to the accounts of members of the *Settlement Class*. It is summarized below.
- The *Court* has scheduled a hearing on final approval of the *Settlement* and on *Lead Counsel's* motion for fees and expenses and for compensation to the *Settlement Class Representatives*. That hearing before the Hon. Karon O. Bowdre has been scheduled for June 27, 2006, at 2 p.m. in Courtroom 509, of the United States District Court for the Northern District of Alabama, Hugo L. Black Courthouse, 1729 Fifth Avenue, Birmingham, AL 35023. You may appear at this hearing.
- Any objections to the *Settlement* or the motion for attorneys' fees and expenses and compensation to the *Settlement Class Representatives* must be sent or delivered in writing to counsel for the *Settlement Class*. The procedure for objecting is described below.
- The *Settlement* does not settle, resolve, or dismiss any claims that were brought under state or federal securities laws, such as the claims at issue in related securities litigation pending before the *Court*.
- This Notice contains summary information with respect to the *Settlement*. The terms and conditions of the *Settlement* are set forth in an Amended Class Action Settlement Agreement (the "*Amended Settlement Agreement*") and the First Addendum to the Amended Class Action Settlement Agreement (the "*First Addendum*"). Capitalized and italicized terms used in this Notice but not defined in this Notice have the meanings assigned to them in the *Amended Settlement Agreement* and *First Addendum*. The *Amended Settlement Agreement*, the *First Addendum* and additional information with respect to the *ERISA Action* and the *Settlement*, are available at www.erisafraud.com, or from counsel listed on Page 2 below.

QUESTIONS? CALL 1-866-817-6516 TOLL FREE OR VISIT www.erisafraud.com.

PLEASE READ THIS NOTICE CAREFULLY AND COMPLETELY. IF YOU ARE A MEMBER OF THE *SETTLEMENT CLASS* TO WHOM THIS NOTICE IS ADDRESSED, THE *SETTLEMENT* WILL AFFECT YOUR RIGHTS. YOU ARE NOT BEING SUED IN THIS MATTER. YOU NEED NOT APPEAR IN COURT, AND YOU NEED NOT HIRE AN ATTORNEY IN THIS CASE. IF YOU ARE IN FAVOR OF THE *SETTLEMENT*, YOU NEED NOT DO ANYTHING. IF YOU DISAPPROVE, YOU MAY OBJECT TO THE *SETTLEMENT* PURSUANT TO THE PROCEDURES DESCRIBED BELOW.

Your Legal Rights and Options in the *Settlement*:

<p>You Can Do Nothing. No Action is Necessary to Receive Payment.</p>	<p>If the <i>Settlement</i> is approved by the <i>Court</i> and you are a member of the <i>Settlement Class</i>, you will not need to do anything to receive a payment. The portion, if any, of the <i>Settlement Fund</i> to be allocated to your <i>Plan</i> account will be calculated as part of the implementation of the <i>Settlement</i>.</p> <p>If you are a current <i>Plan</i> participant any share of the <i>Settlement Fund</i> to which you are entitled will be deposited into your <i>Plan</i> account. If you no longer are a <i>Plan</i> participant and are entitled to share in the <i>Settlement Fund</i>, a <i>Plan</i> account will be (re)established for you, if necessary, and you will be notified of such account.</p>
<p>Object (by June 13, 2006)</p>	<p>If you wish to object to any part of the <i>Settlement</i>, you may send or deliver your objection in writing to counsel as discussed below.</p>
<p>Go to a Hearing (to be held on June 27, 2006)</p>	<p>If you have submitted a written objection to the <i>Settlement</i>, you may (but do not have to) attend the <i>Court</i> hearing about <i>Settlement</i> and present your objections to the <i>Court</i>.</p>

These rights and options - **and the deadlines to exercise them** - are explained in this Notice.

The *Court* in charge of this case still has to decide whether to approve the *Settlement*. Payments will be made only if the *Court* approves the *Settlement* and that approval is upheld in the event of any appeals.

Further information regarding the litigation and this Notice may be obtained by contacting:

Lead Counsel

Lynn Lincoln Sarko, Esq.
Derek W. Loeser, Esq.
Gary A. Gotto, Esq.
Keller Rohrback L.L.P.
1201 Third Avenue, Suite 3200
Seattle, WA 98101-3052
Telephone: (800) 315-0177
Facsimile: (206) 623- 3384

Email: healthsouth@kellerrohrback.com

Website: www.erisafraud.com

Liaison Counsel for Plaintiffs

Richard R. Rosenthal
Law Offices of Richard R. Rosenthal
200 Title Building
300 North Richard Arrington Jr. Blvd.
Birmingham, AL 35203
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This litigation (the “*ERISA Action*”) is a consolidation of a series of cases filed in federal district court. As described in more detail below and in the complaints themselves, the cases concern allegations that Defendants breached fiduciary duties they owed to participants in the *Plan*. Copies of the Consolidated Amended Complaint for Breach of Fiduciary Duty under ERISA (“*Complaint*”) and other documents filed in the *ERISA Action* are available at www.erisafraud.com.

SUMMARY OF SETTLEMENT

1. A *Settlement Fund* consisting of \$28.875 million in cash is being established in the *ERISA Action*. In addition, in the event that HealthSouth, one of the *Settling Parties*, recovers all or any portion of the judgment entered on January 3, 2006 against Defendant Scrushy in the HealthSouth Corporation 2002 Derivative Litigation (CV 02-5212) (the "*Bonus Judgment*"), HealthSouth shall pay the first \$1 million collected from the *Bonus Judgment* to the *Settlement Fund* in the manner set forth in the *Amended Settlement Agreement* and directed by the Court.
2. The net amount in the *Settlement Fund*, including interest, and after payment of any taxes and approved costs, fees, and expenses, will be paid to the *Plan* and, after payment of implementation expenses, the remaining amount shall be allocated to *Settlement Class* members according to a *Plan of Allocation* to be approved by the Court.
3. *Claims* asserted in the ongoing securities law and derivative actions against the Defendants are not part of this case and will *not* be settled or dismissed as part of this *Settlement*.

Statement of Potential Outcome of the ERISA Action

Lead Counsel believes that the claims against the *Settling Defendants* are well-grounded in law and fact, and that serious breaches of fiduciary duty under *ERISA* occurred in this case. However, as with any litigated case, Plaintiffs would face an uncertain outcome if the *ERISA Action* were to continue against the *Settling Defendants*. Continued litigation of the *ERISA Action* against these Defendants could result in a judgment or verdict greater or lesser than the recovery under the *Amended Settlement Agreement*, or in no recovery at all. In evaluating the *Settlement*, *Lead Counsel* considered the range of possible recoveries if the claims against the *Settling Defendants* were adjudicated rather than settled. *Lead Counsel* concluded that this settlement reflected a reasonable compromise in light of that range of possible outcomes. Because the *Settlement* provides certainty to the Class with respect to the amount of recovery, and should result in the recovery actually being realized prior to the time it would be were the case litigated to a conclusion, *Lead Counsel* concluded that the *Settlement* was preferable to continued litigation and was in the best interests of the Class.

Throughout this litigation, the *Defendants* have denied and continue to deny the claims and contentions alleged by the *Settlement Class Representatives* that they are liable at all to the *Settlement Class*, and that the *Settlement Class* or the *Plan* have suffered any damages for which the *Defendants* are legally responsible. Nevertheless, the *Settling Defendants* have concluded that it is desirable that the *ERISA Action* be fully and finally settled as to them on the terms and conditions set forth in the *Amended Settlement Agreement*.

Statement of Attorneys' Fees and Expenses Sought in the ERISA Action

Lead Counsel in the *ERISA Action* will submit a fee petition to the Court in which they will ask the Court to award counsel for the *Settlement Class Representatives* in the *ERISA Action* attorneys' fees not in excess of 30% of the amount recovered in the *Settlement*, plus reimbursement of costs and expenses. Fees and expenses awarded by the Court will be deducted from the *Settlement Amount*.

What Will the Settlement Class Representatives Get?

The *Settlement Class Representatives* will share in the allocation of the money paid to the *Plan* on the same basis and to the same extent as all other members of the *Settlement Class*. In addition, the *Settlement Class Representatives* may apply to the Court for compensation up to \$5,000 each for their efforts in pursuing this case. Any compensation awarded to *Settlement Class Representatives* by the Court will be payable from the proceeds of the *Settlement*.

Further Information

Further information regarding the *ERISA Action* and this Notice may be obtained by contacting:

Lead Counsel

Lynn Lincoln Sarko, Esq.
Derek W. Loeser, Esq.
Gary A. Gotto, Esq.
Keller Rohrback L.L.P.
1201 Third Avenue, Suite 3200
Seattle, WA 98101-3052
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Email: healthsouth@kellerrohrback.com

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Liaison Counsel for Plaintiffs

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200 Title Building
300 North Richard Arrington Jr. Blvd.
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Telephone: (205) 252-1146
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BASIC INFORMATION

1. Why did I get this Notice package?

You or someone in your family are or may have been a participant or beneficiary of the *Plan*. The *Court* caused this Notice to be sent to you because, if you fall within that group, you have a right to know about the *Settlement* and about all of your options before the *Court* decides whether to approve the *Settlement*. If the *Court* approves the *Settlement*, and after any objections and appeals are resolved, the net amount of the *Settlement Fund* will be paid to the *Plan* and then allocated among *Settlement Class* members according to a Court-approved *Plan of Allocation*. This Notice package describes the litigation, the *Settlement*, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The *Court* in charge of these cases is the United States District Court for the Northern District of Alabama. The people who sued are called "Plaintiffs," and the people they sued are called "Defendants." The legal action that is the subject of this Notice and the *Settlement* is known as *In re HealthSouth Corp. ERISA Litigation*, CV-03-BE-1700. As noted above, we are referring to it as the "*ERISA Action*."

The *Settlement* settles all claims in the *ERISA Action* against all Defendants. Thus, the "*Settling Defendants*" are: HealthSouth Corporation, Brandon Hale, Dennis Wade, Kimberly McCracken, Marca Pearson, Barbara Roper, Philip Watkins, James P. Bennett, P. Daryl Brown, John S. Chamberlin, Larry D. Striplin, Jr., Charles W. Newhall, III, George H. Strong, Richard F. Celeste, C. Sage Givens, Joel C. Gordon, Larry R. House, Anthony J. Tanner, Raymond J. Dunn, III, Allan R. Goldstein, Robert P. May, Jan L. Jones, Jon F. Hanson, and Lee S. Hillman, Richard M. Scrusby, Aaron Beam, Jr., Michael D. Martin, and William T. Owens.

2. What is the lawsuit about?

The *ERISA Action* claims that the Defendants were fiduciaries of the *Plan* and violated fiduciary duties under *ERISA* that they owed to the HealthSouth employees and retirees who were participants in the *Plan*. In the Complaint, *Settlement Class Representatives* have asserted causes of action for the losses suffered by the *Plan* as the result of the alleged breaches of fiduciary duty by the Defendants.

The accounts of participants in the *Plan* were invested in HealthSouth stock. The *ERISA Action* alleges that HealthSouth and some of its individual directors, officers, and employees had the discretion to sell the Plan's holdings of HealthSouth stock. It also alleges that Defendants knew or should have known that HealthSouth stock was not a prudent investment because HealthSouth was allegedly engaged in inappropriate business and accounting practices, including accounting and Medicare fraud. The Complaint alleges that the Defendants knew or should have known of HealthSouth's true financial situation. As a result, the *ERISA Action* alleges that the Defendants acted imprudently when they failed to liquidate the Plan's HealthSouth stock holdings. The *ERISA Action* also asserts that certain of the Defendants violated their fiduciary duties by failing to adequately

monitor the persons whom they appointed to serve as *Plan* fiduciaries, and ensure that they were faithfully discharging their fiduciary duties under *ERISA*.

The Defenses in the *ERISA* Action

The *Settling Defendants* deny that they have liability to the *Plan* or its participants or beneficiaries. If the litigation were to continue, the *Settling Defendants* would raise numerous defenses to liability, including the following:

- Many of the Defendants were not fiduciaries of the *Plan* and, therefore, cannot be held liable. For those who were, their fiduciary duties did not extend to the matters at issue in the *ERISA* Action;
- *ERISA* does not provide a statutory remedy based on the facts alleged in the Complaint by the *Settlement Class Representatives*;
- All Defendants who were fiduciaries as to the matters at issue in the *ERISA* Action, fully discharged all fiduciary duties imposed on them by *ERISA*;
- Even if they failed to discharge one or more of their *ERISA* fiduciary duties, any such breach of fiduciary duty did not cause any losses or the losses alleged by the Plaintiffs; and
- They did not and could not have known about the alleged underlying improper business and accounting practices at HealthSouth.

The *Settling Defendants*' Insurance Policies in the *ERISA* Action

HealthSouth purchased liability insurance policies covering the *Plan*'s fiduciaries. The total of the face amounts of those policies was \$30 million. The insurers have asserted that the policies are void (of no legal effect) as to some of the *Settling Defendants* and that they have no obligation to pay any amounts under those policies because HealthSouth, among others, allegedly made misrepresentations to them. If this contention were to be upheld, then the insurers would have no obligation to pay any amounts on their policies on behalf of those *Settling Defendants*. In other words, the policies would not be available to pay any judgment that Plaintiffs might obtain against those *Settling Defendants*. The insurers have filed lawsuits seeking to have the policies declared void.

In addition, as described above, the fiduciary liability policies are "wasting" policies. This means that the policy limits are reduced by all amounts paid by the insurers to reimburse the Defendants for their attorneys' fees and expenses in defending the *ERISA* Action. There are multiple law firms actively representing the *Settling Defendants*. Given the remaining proceedings in the case, even if all the policies were determined to provide coverage, it is likely that the amounts available under them will be severely depleted if the litigation were to continue.

The *ERISA* Action Has Been Aggressively Litigated

Counsel for the *Settlement Class Representatives* has investigated HealthSouth and the losses they believe were suffered by the *Plan* as a result of HealthSouth's decline. Through the discovery of information in the *ERISA* Action, counsel for the *Settlement Class Representatives* has obtained thousands of pages of documents and have opposed motions by Defendants to dismiss *Settlement Class Representatives*' claims. Following a hearing on the motions to dismiss, the *Court* stated that it intended to deny the motions as to most Defendants.

Lead Counsel has also followed the proceedings in the HealthSouth securities law cases and have coordinated their efforts with the attorneys for the plaintiffs in those cases. In addition, *Lead Counsel* has conducted a review of the available insurance coverage and of the law and facts related to the insurers' contentions that the insurance policies are void.

Settlement Discussions in the *ERISA* Action

This *Settlement* is the product of months of intense negotiations between *Lead Counsel* and the *Settling Defendants*' Counsel and a lengthy mediation process. *Settlement* discussions have proceeded before Court-appointed mediator, Eric Green, and have involved numerous in person sessions and telephonic conferences.

Bar Order, and Judgment Reduction

If the *Court* approves the *Settlement*, the *Court* will enter a "*Bar Order*" that will prevent anyone except the Department of Labor from suing any of the *Settling Defendants* for "indemnification" or "contribution," or otherwise for claims released in this action.

The *Bar Order* will also provide that any verdict or judgment that might be obtained against anyone pertaining to the *ERISA Action* will be reduced by certain amounts to be determined by the *Court* pursuant to criteria stated in the *Amended Settlement Agreement*.

The *Bar Order* will also bar any claims by anyone except the Department of Labor against the *Underwriters* under or in any way involving the fiduciary liability policies issued by the *Underwriters*. Any person or entity that objects to any aspect of the *Settlement* must do so in writing no later than June 13, 2006, and may appear at the Fairness Hearing on June 27, 2006, and be heard by the *Court* regarding why the *Settlement* should not be approved by the *Court*. Any objection to any other aspect of the *Settlement* must be sent or delivered to *Lead Counsel* and Liaison Counsel for Plaintiffs at the following addresses on or before June 13, 2006:

Lynn Lincoln Sarko, Esq..
Derek W. Loeser, Esq.
Gary A. Gotto, Esq.
Keller Lohrback L.L.P.
1201 Third Avenue, Suite 3200
Seattle, WA 98101-3052

Richard R. Rosenthal
Law Offices of Richard R. Rosenthal
200 Title Building
300 North Richard Arrington Jr. Blvd.
Birmingham, AL 35203

Any such objection must also be sent to the following Post Office Box on or before June 13, 2006:

In re HealthSouth ERISA Litigation
c/o Liaison Counsel for Plaintiffs
P.O. Box 2373
Birmingham, AL 35201
Re: Case No. CV-03-BE-1700

3. Why is this case a class action?

In a class action, one or more plaintiffs, called "Class Representatives," sue on behalf of people who have similar claims. All of the individuals on whose behalf the *Settlement Class Representatives* are suing are "Class Members." One court resolves the issues for all Class Members. In its order setting the Fairness Hearing, the *Court* preliminarily certified the *Settlement Class* in the *ERISA Action*.

The *Settlement Class Representatives* in the *ERISA Action* are the following persons who were HealthSouth employees at points during the *Class Period*: Kim Coggins, Kim French, and Robert J. Lancaster.

4. Why is there a Settlement?

The *Court* has not reached any final decision in connection with *Settlement Class Representatives'* claims against the *Settling Defendants*. Instead, the *Settlement Class Representatives* and the *Settling Defendants* and their insurers have agreed to a settlement. In reaching the *Settlement*, they have avoided the cost and time of a trial. *Settlement Class Representatives* have agreed to this *Settlement* to obtain and preserve the *Settling Defendants'* insurance proceeds and to obtain money from HealthSouth.

Settlement Class Representatives and their attorneys think the *Settlement* is best for all *Settlement Class Members*. The reasons they believe this to be so are described above in the section: Statement of Potential Outcome of the *ERISA Action*.

WHO IS IN THE SETTLEMENT

To see if any of the proceeds of this *Settlement* will be allocated to your *Plan* account, you first must determine whether you are a member of the *Settlement Class*.

5. How do I know whether I am part of the *Settlement*?

The *Court* has conditionally certified that this *Settlement* shall proceed on behalf of everyone who, subject to certain exceptions identified below, fits the following description:

(a) all Persons who were participants in the *Plan*, **at any time** during the period January 1, 1996, through June 3, 2005; and (b) as to each *Person* within the scope of subsection (a) of this paragraph, his, her or its beneficiaries, alternate payees (including spouses of deceased *Persons* who were *Plan* participants), *Representatives* and *Successors-In-Interest*.

6. Are there exceptions to being included?

All *Plan* participants are members of the *Settlement Class* with the exception of the following Defendants in the *ERISA Action*: Brandon Hale, Philip Watkins, James P. Bennett, P. Daryl Brown, John S. Chamberlin, Larry D. Striplin, Jr., Charles W. Newhall, III, George H. Strong, C. Sage Givens, Joel C. Gordon, Larry R. House, Anthony J. Tanner, Raymond J. Dunn, III, Allan R. Goldstein, Robert P. May, Jan L. Jones, Jon F. Hanson, Lee S. Hillman, Richard M. Scrushy, Aaron Beam, Jr., Michael D. Martin, and William T. Owens.

THE SETTLEMENT BENEFITS - WHAT YOU GET

7. What does the *Settlement* provide?

A *Settlement Fund* consisting of between \$28.875 and \$29.875 million in cash, as detailed above, has been established in the *ERISA Action*. The net amount in the *Settlement Fund*, including interest, and after payment of, and establishment of reserves for, any taxes and Court-approved costs, fees, and expenses, including any Court-approved compensation to be paid to the *Settlement Class Representatives*, will be paid to the *Plan* and, after payment of implementation expenses, the remaining amount will be allocated to the *Plan* accounts of members of the *Settlement Class* according to a *Plan of Allocation* to be approved by the *Court*.

All *Settlement Class* members and anyone claiming through them are deemed to fully release the "Releasees" from "Released Claims." The *Releasees* generally are the *Settling Defendants*, the insurers who are providing funds for the *Settlement*, and HealthSouth's officers, directors, employees, attorneys, agents and insurers. The *Released Claims* generally include (i) any and all *ERISA-based* and *RICO-based* claims related to the acquisition, disposition, or retention of stock by the *Plan* and/or its fiduciaries during the *Class Period*; (ii) any and all claims related to the appointment, removal, or monitoring of any fiduciary for the *Plan*; (iii) any and all claims related to the preparation or dissemination, directly or indirectly, to *Plan* participants and beneficiaries of information relating to HealthSouth stock; (iv) any and all claims related to the *Insurance Policies*; (v) any and all *ERISA-based* claims asserted, or that could have been asserted, in the *ERISA Action* and *ERISA-based* claims, known or unknown, arising from or related to the acts, omissions, facts or events alleged in the *ERISA Action*; (vi) any and all claims in connection with, based upon, arising out of, or relating to the *Settlement*, but excluding claims to enforce the terms of the *Settlement*; and (vii) any and all claims based upon, arising out of, or relating to any person's liability to the *Settlement Class* or the *Plan* for claims set forth in any of the preceding subparagraphs (i) through (vi), and any fees, expenses, judgments, and/or settlement amounts arising out of such claims. This means that *Settlement Class* members will not have the right to sue the *Releasees* for anything related to the investment of *Plan* assets in stock or to other alleged fiduciary misconduct during the *Class Period* concerning the *Plan*, as set forth above.

The *Settlement* also provides for a "bar order." As set forth fully in the *Amended Settlement Agreement*, the "bar order" is a *Court* order that will bar and enjoin anyone with actual notice of the *Settlement*

(as well as others who have sufficient knowledge so that legally they are treated as having notice of the *Settlement*) from bringing any "Released Claim" in any forum against any *Releasee* or the *Underwriters*, including but not limited to claims for indemnity or contribution.

The above description of the operation of the *Settlement* is only a summary. The governing provisions are set forth in the *Amended Settlement Agreement* (including its exhibits), which may be obtained at www.erisafraud.com, or by contacting counsel listed in response to Question No. 2 above.

The *Settlement* does not release the securities class action claims pending before the *Court* or any other securities or derivative claims against the *Company*.

8. How much will my payment be?

Plaintiffs will submit a proposed plan of allocation to the *Court*. If approved, your share of the net *Settlement* proceeds paid into the *Plan* (the "*Net Settlement Fund*") will depend on the investment in HealthSouth stock in your *Plan* account between January 1, 1996, and June 3, 2005 (which period is referred to in this Notice as the "*Class Period*"), and the amount, if any, that you lost as a result. The formula will take into account the amount of HealthSouth stock in your *Plan* account. The more HealthSouth stock in your *Plan* account, the larger your share of the *Net Settlement Fund* will be. Your share of the *Net Settlement Fund* may be less than your actual losses, however. You are not responsible for calculating the amount you may be entitled to receive under the *Settlement*. This calculation will be done as part of the implementation of the *Settlement*.

The proposed *Plan of Allocation*, if approved by the *Court*, will provide that for each qualified Class Member, the proportion of the *Net Settlement Fund* allocated to each Class Member's *Plan* account will be calculated as follows:

- Each participant's "Net Loss" will be calculated. The Net Loss consists of (i) the value of HealthSouth stock in a participant's *Plan* account at the beginning of the *Class Period* (January 1, 1996) plus (ii) the value of HealthSouth stock contributed to the participant's *Plan* account during the *Class Period* minus (iii) the proceeds of any HealthSouth stock held in the participant's *Plan* account that was disposed of during the *Class Period*, and minus (iv) the value of HealthSouth stock held in the participant's *Plan* account at the end of the *Class Period* (June 3, 2005).
- The Net Losses of the participants will be aggregated.
- Each participant will be assigned a Net Loss Percentage, showing the percentage of the participant's Net Loss in relation to all participants' Net Losses.
- Each participant's share of the *Net Settlement Fund* will be equal to the *Net Settlement Fund* available for distribution, multiplied by the participant's Net Loss Percentage.

Do not worry if you do not have records concerning your *Plan* account. If you are entitled to a share of the *Net Settlement Fund*, you will receive a statement showing the amount of your share. If you have questions regarding the *Settlement* or the *Plan of Allocation*, please contact the counsel listed in response to Question No. 2 above.

9. How can I get a payment?

You do not need to file a claim for recovery. If you are a *Settlement Class* member entitled to a share of the *Net Settlement Fund*, your share will be deposited in your *Plan* account. If you are a former *Plan* participant, if necessary, an account will be established for you in the *Plan*, and you will be notified of such account. If you are a former participant and have not provided the *Plan* with your current address, please contact the counsel listed in response to Question No. 2 above. Actual distribution of the settlement proceeds will be in accordance with the *Plan of Allocation* and the *Amended Settlement Agreement*.

10. When would I get my payment?

Payment is conditioned on several matters, including the *Court's* approval of the *Settlement* and *Plan of Allocation*, and such approval becoming final and no longer subject to any appeals to any court. Payment is also conditioned on approval of aspects of the *Settlement* by U.S. Trust, an independent fiduciary

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appointed for the *Plan*. Upon satisfaction of the various conditions, the *Net Settlement Fund* will be paid to the *Plan* and allocated to the accounts of *Settlement Class* members pursuant to the *Plan of Allocation* (described in the Answer to Question No. 8, above), as soon as possible after final approval has been obtained for the *Settlement* (which includes exhaustion of any appeals). Any appeal of the final approval may take a year or more. Any accrued interest on the *Settlement Fund* will be included in the amount paid to the *Plan* and allocated to the *Plan* accounts of *Settlement Class* members.

There Will Be No Payments if the Amended Settlement Agreement is Terminated

The *Settling Defendants* may withdraw from and terminate the *Amended Settlement Agreement* on several grounds as set forth fully therein, including if (i) the *Court* does not approve or modifies the *Settlement*; or (ii) the *Court's* Final Order, either as modified by the *Court* or as a result of reversal or modification on appeal, does not satisfy certain terms of the *Settlement*. In that event, there will be no settlement payment made, and the litigation against the *Settling Defendants* will resume.

11. Can I get out of the Settlement?

You do not have the right to exclude yourself from the *Settlement*. The *ERISA Action* was certified under Federal Rule of Civil Procedure 23(b)(1) as a non "opt-out" class action because of the way *ERISA* operates. Breach of fiduciary duty claims must be brought by participants on behalf of *ERISA* plans, and any judgment or resolution necessarily applies to all plan participants and beneficiaries. Thus, it is not possible for any participants or beneficiaries to exclude themselves from the benefits of the *Settlement*. As a *Settlement Class* member, you will be bound by any judgments or orders that are entered in the *ERISA Action* for all claims that were asserted in the *ERISA Action* or otherwise included in the release under the *Settlement*.

Although you cannot opt-out of the *Settlement*, you can object to the *Settlement* and ask the *Court* not to approve it. See Answer to Question No. 14 below.

THE LAWYERS REPRESENTING YOU

12. Do I have a lawyer in the case?

The *Court* has appointed the law firm of Keller Rohrback L.L.P., located in Seattle, Washington, and Phoenix, Arizona, as *Lead Counsel* in the *ERISA Action*, and Richard R. Rosenthal, Esq. of Birmingham, Alabama, as Liaison Counsel for Plaintiffs in the *ERISA Action*. If you want to be represented by your own lawyer, you may hire one at your own expense.

13. How will the lawyers be paid?

Lead Counsel who has pursued this action on a contingent basis will file a motion for the award of attorneys' fees and expenses. This motion will be considered at the *Fairness Hearing*. As previously described, *Lead Counsel* will seek attorneys' fees not in excess of 30% of the recovery, plus reimbursement of expenses incurred in connection with the prosecution of the *ERISA Action*.

OBJECTING TO THE SETTLEMENT OR THE ATTORNEYS' FEES

14. How do I tell the Court that I don't like the Settlement?

If you are a *Settlement Class* member, you can object to the *Settlement* if you do not like any part of it. You can give reasons why you think the *Court* should not approve it. To object, you must send a letter or other written filing saying that you object to the *Settlement*. Be sure to include your name, address, telephone number, signature, and the reasons you object to the *Settlement*. Your written objection must be sent to *Lead Counsel*, Liaison Counsel for the Plaintiffs, and the Post Office Box, in accordance with the instructions set forth in response to Question No. 2 above. The U.S. Department of Labor will also be notified of this *Settlement* and will be given an opportunity to object to it.

THE COURT'S FAIRNESS HEARING

15. When and where will the *Court* decide whether to approve the *Settlement*?

The *Court* will hold a *Fairness Hearing* to decide whether to approve the *Settlement* as fair, reasonable, and adequate. You may attend the *Fairness Hearing*, and you may ask to speak, but you do not have to attend. The *Court* will hold the *Fairness Hearing* at 2:00 p.m. on June 27, 2006, at the United States District Court for the Northern District of Alabama, Hugo L. Black U. S. Courthouse, 1729 Fifth Avenue North, Birmingham, AL 35203, in Courtroom 509. At that hearing, the *Court* will consider whether the *Settlement* is fair, reasonable, and adequate. If there are objections, the *Court* will consider them. After the *Fairness Hearing*, the *Court* will decide whether to approve the *Settlement*. The *Court* will also rule on the motions for attorneys' fees and expenses.

16. Do I have to come to the hearing?

No, but you are welcome to come at your own expense. If you send an objection, you do not have to come to *Court* to talk about it. As long as you mail your written objection on time, it will be before the *Court* when the *Court* considers whether to approve the *Settlement* as fair, reasonable, and adequate. You also may pay your own lawyer to attend the *Fairness Hearing*, but attendance is not necessary.

17. May I speak at the hearing?

If you are a *Settlement Class* member, you may ask the *Court* for permission to speak at the *Fairness Hearing*. To do so, you must send a letter or other paper called a "Notice of Intention to Appear at *Fairness Hearing* in *In re HealthSouth Corp. ERISA Litigation*, Case No. CV-03-BE-1700." Be sure to include your name, address, telephone number, and your signature. Your Notice of Intention to Appear must be sent or delivered to *Lead Counsel*, Liaison Counsel for the Plaintiffs, and the Post Office Box, in accordance with the instructions set forth in response to Question No. 2 above.

IF YOU DO NOTHING

18. What happens if I do nothing at all?

If you do nothing and you are a *Settlement Class* member, you will participate in the settlement of the *ERISA Action* as described above in this Notice if the *Settlement* is approved.

GETTING MORE INFORMATION

19. Are there more details about the *Settlement*?

This Notice summarizes the proposed *Settlement*. The complete settlement is set forth in the *Amended Settlement Agreement* and the *First Addendum*. You may obtain a copy of the *Amended Settlement Agreement* and the *First Addendum* by making a written request to the counsel listed in response to Question No. 2 above. Copies may also be obtained at www.erisafraud.com.

20. How do I get more information?

You can contact *Lead Counsel* (see counsel listed in response to Question No. 2), or visit the website at www.erisafraud.com for more information regarding the *Settlement*.