

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,)	
)	
Plaintiff,)	
)	Civil Action
vs.)	
)	No. CV-03-J-0615-S
RICHARD M. SCRUSHY,)	
)	JURY TRIAL
Defendant.)	DEMANDED
_____)	

THIRD AMENDED COMPLAINT

The Securities and Exchange Commission (“Commission” or “SEC”) files this Third Amended Complaint alleging as follows:

JURISDICTION AND VENUE

1. The Commission brings this action pursuant to 15 U.S.C. §§ 77t(b), 77t(d) and 77t(e) [sections 20(b), 20(d) and 20(e) of the Securities Act of 1933 ("Securities Act")] and 15 U.S.C. §§ 78u(d), 78u(e) and 78u-1 [sections 21(d), 21(e) and 21A of the Securities and Exchange Act of 1934 ("Exchange Act").

2. Richard M. Scrushy made use of the mails, the means and instruments of transportation and communication in interstate commerce, in connection with the transactions, acts, and practices alleged in this complaint.

3. This Court has jurisdiction over this action pursuant to 15 U.S.C. § 77v(a) [section 22(a) of the Securities Act] and 15 U.S.C. § 78aa [section 27 of the Exchange Act].

4. Venue lies in this Court pursuant to 15 U.S.C. § 77v(a) [section 22(a) of the Securities Act] and 15 U.S.C. § 78aa [section 27 of the Exchange Act] because Richard M. Scrushy is an inhabitant of, and transacts business in, this district, and because many of the acts and transactions constituting the violations occurred in this district.

THE DEFENDANT

5. Richard M. Scrushy (“Scrushy”) was a founder of HealthSouth Corporation (“HealthSouth” or the “Company”) and served as Chairman of its Board of Directors from 1984 until March 19, 2003. Scrushy was also HealthSouth’s Chief Executive Officer (“CEO”) from 1994 until August 27, 2002, and again from January 6, 2003, through March 19, 2003. As CEO, Scrushy was the highest ranking officer of HealthSouth and was responsible for the overall management of the Company.

HEALTHSOUTH

6. HealthSouth was organized as a Delaware corporation in 1984. It became a “public company” when it sold shares to the general public in an initial public offering in 1986. At all times relevant to this complaint, HealthSouth’s principal offices were located in Birmingham, Alabama.

7. As of December 2001, HealthSouth operated approximately 1,900 facilities in 50 states and abroad, making it the nation’s largest provider of outpatient surgery, diagnostic, and rehabilitative services.

8. Until March 2003, HealthSouth’s common stock was listed on the New

York Stock Exchange and was traded under the symbol “HRC.” As of December 31, 2001, there were over 390 million shares of HealthSouth stock outstanding, with over 6600 shareholders of record.

9. All statements made, actions taken, and knowledge held by Scrushy in connection with his position as a director or officer of HealthSouth are attributable to HealthSouth.

10. HealthSouth was originally named as a co-defendant in this action. Because the Court has entered final judgment against HealthSouth, the Company is not shown as a defendant in this amended complaint. However, in connection with the “aiding and abetting” and “control person” claims against Scrushy (Counts III, IV, and VI), the Commission continues to allege herein that HealthSouth engaged in violations of the anti-fraud, financial reporting, and record-keeping provisions of the securities laws.

HEALTHSOUTH'S FINANCIAL REPORTING PROCESS

11. To sell securities to the public, HealthSouth was required to register its securities with the Commission. HealthSouth was also required to ensure that the Company's financial information was accurately and fairly recorded and disclosed, and to maintain internal accounting controls which would reasonably assure that these objectives were satisfied. HealthSouth prepared financial statements showing its revenue and expenses during a stated period (income statements), its assets, liabilities, and shareholder equity (balance sheets), and the amount of cash received and how that cash was used (cash flow statements).

12. HealthSouth was required to file periodic reports with the Commission, including:

- a. quarterly reports on HealthSouth's financial condition and the results of its operations, filed on Form 10-Q;
- b. annual reports on HealthSouth's financial condition and the results of its operations, filed on Form 10-K;
- c. registration statements regarding issuance of stocks and bonds, filed on Forms S-3, S-4, and S-8; and
- d. statements identifying material events, filed on Form 8-K.

13. HealthSouth's quarterly reports on Form 10-Q included HealthSouth's quarterly financial statements for the quarter, as well as comparable statements for prior periods. HealthSouth's annual reports on Form 10-K included HealthSouth's annual financial statements for the year, as well as comparable statements for prior periods.

14. HealthSouth filed its Forms 10-Q, 10-K, S-3, S-4, S-8, and 8-K with the Commission in Washington, D.C. These documents were available for public review.

15. All financial statements filed with the Commission were required to conform to Generally Accepted Accounting Principles ("GAAP"), the basic rules for accounting in the United States.

16. HealthSouth's financial reports, including its income statements and balance sheets, were routinely distributed to stockholders, bondholders, underwriters, analysts, bankers, the media, and others. These documents, or figures from these documents, were also disseminated through conference calls, media interviews, press releases, and the Internet.

**ALLEGATIONS CONCERNING
FALSE PUBLIC STATEMENTS BY SCRUSHY AND HEALTHSOUTH**

17. As described in detail below, Scrushy made numerous false statements in public filings he reviewed and signed, and in press releases he reviewed, caused to be issued, and for which he provided quotes.

1996 - Second Quarter Announcements

18. On July 16, 1996, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 1996. The announcement also included references to prior period results, the total year-to-date results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrushy reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrushy as a person to contact for more information.

19. On August 14, 1996, HealthSouth filed its Form 10-Q for the quarter ending June 30, 1996 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 1996 and December 31, 1995, Income Statements and Cash Flow Statements for the quarter ending June 30 for both 1995 and 1996, and Income Statements and Cash Flow Statements for the six months ending June 30 for both 1995 and 1996. The Form 10-Q also contained Notes for the Financial Statements and an Item described as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (“MD&A”). Scrushy signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

20. The Press Release and the Form 10-Q for the second quarter of 1996 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 1996 was represented to have been \$595,589,000, and net income for the same period was represented to have been \$59,555,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$109,570,000 for the three months ended June 30, 1996.

21. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 1996 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests by \$7,370,000, or 7.2%. Using the effective tax rate of 38.1% identified in the Form 10-Q MD&A, the Company overstated net income by \$4,562,000, or 8.3%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

22. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

23. Scrushy knew, or was extremely reckless in not knowing, that the Company’s financial representations in the Press Release and Form 10-Q for the second

quarter of 1996 were false. After the Company had first closed its books for June 30, 1996, but before the Press Release on July 16, 1996, Aaron Beam, HealthSouth's then Chief Financial Officer (“CFO”), and Bill Owens, HealthSouth’s then controller, told Scrusby that HealthSouth's true earnings for the second quarter of 1996 would not meet Wall Street’s expectations, and that they had no way of re-characterizing any of the Company’s real transactions to boost earnings sufficiently to meet analysts’ expectations. Scrusby responded that missing the Wall Street projections was not an option, and directed Beam and Owens to “fix” the numbers.

24. In the same time period, following Scrusby’s direction, Owens and assistant controller Ken Livesay devised a plan that would allow the Company to inflate its earnings artificially by recording fictitious revenue and assets, as explained below at . Beam and Owens then met with Scrusby and explained the concept. Scrusby approved the scheme and directed that it be implemented.

1996 - Third Quarter Announcements

25. On October 15, 1996, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 1996. The announcement also included references to prior period results, the total year-to-date results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

26. On November 14, 1996, HealthSouth filed its Form 10-Q for the quarter

ending September 30, 1996 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 1996 and December 31, 1995, Income Statements and Cash Flow Statements for the quarter ending September 30 for both 1995 and 1996, and Income Statements and Cash Flow Statements for the nine months ending September 30 for both 1995 and 1996. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

27. The Press Release and the Form 10-Q for the third quarter of 1996 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 1996 was represented to have been \$616,943,000 and net income for the same period was represented to have been \$61,044,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$111,904,000 for the three months ended September 30, 1996.

28. The Company’s representations in the Press Release and Form 10-Q for the financial results of the third quarter of 1996 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests by \$10,790,000, or 10.7%. Using the effective tax rate of 38.1% identified in the Form 10-Q MD&A, the Company overstated

net income by \$6,679,000, or 12.3%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

29. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

30. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1996 - Fourth Quarter and Full Year Announcements

31. On February 24, 1997, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 1996. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted Scrusby as stating, falsely, that HealthSouth's 1996 results represented the Company's "tenth consecutive year of meeting or exceeding analysts' expectations."

32. On March 26, 1997, HealthSouth filed its Form 10-K for the year ending December 31, 1996 with the SEC in Washington, D.C. This document contained

Balance Sheets for the Company as of December 31, 1995 and December 31, 1996, and Income Statements and Cash Flow Statements for the years ending December 31 for 1994, 1995, and 1996. The Form 10-K also presented certain summary financial information for each quarter of both 1995 and 1996. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scruschy signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

33. The Press Release and the Form 10-K for the year 1996 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 1996 was represented to have been \$642,771,000, and net income for the same period was represented to have been \$62,368,000. Revenue for the full year was represented to have been \$2,436,537,000, and net income for the same period was represented to have been \$220,818,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$410,493,000 for the twelve months ended December 31, 1996.

34. The Company’s representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 1996 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$88,360,000, or 27.4%. Using the effective tax rate of 38.8% identified in the Form 10-

K MD&A, the Company overstated net income for the year by \$54,076,000, or 32.4%. Using the effective tax rate of 38.8% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$42,962,400, or 221.4%. Retained earnings were represented to be \$536,423,000. This was overstated by the same amount that net income for the year was overstated, \$54,076,000, or by 11.2%. All comparisons to prior period results for the same categories in the Press Release and Form 10-K were made misleading by these misrepresentations.

35. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

36. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

1997 - First Quarter Announcements

37. On April 24, 1997, HealthSouth issued a press release from Birmingham, Alabama, announcing its first-quarter financial results for 1997. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted Scrusby as stating, falsely, that HealthSouth's

1997 first-quarter results represented the Company's "43d consecutive quarter of meeting or exceeding analysts' expectations."

38. On May 14, 1997, HealthSouth filed its Form 10-Q for the quarter ending March 31, 1997 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 1997 and December 31, 1996, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 1996 and 1997. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrushy signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

39. The Press Release and the Form 10-Q for the first quarter of 1997 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on March 31, 1997 was represented to have been \$691,631,000, and net income for the same period was represented to have been \$64,580,000. The Form 10-Q separately broke out "income before income taxes and minority interests" and represented that for this category the Company had earned \$122,899,000 for the three months ended March 31, 1997.

40. The Company's representations in the Press Release and Form 10-Q for the financial results of the first quarter of 1997 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$46,760,000, or 61.4%. Using the effective tax rate of 39.6% identified in the Form 10-Q MD&A, the

Company overstated net income for the quarter by \$28,243,000, or 77.7%. Retained earnings were represented to be \$589,065,000 as of March 31, 1997. This was overstated by the same amount that net income was cumulatively overstated, \$82,319,000, or by 16.2%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

41. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

42. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1997 - Second Quarter Announcements

43. On July 17, 1997, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 1997. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

44. On August 14, 1997, HealthSouth filed its Form 10-Q for the quarter ending June 30, 1997 with the SEC in Washington, D.C. This document contained

Balance Sheets for the Company as of June 30, 1997 and December 31, 1996, and Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 1996 and 1997. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth under authorization as the Chairman of the Board and Chief Executive Officer.

45. The Press Release and the Form 10-Q for the second quarter of 1997 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 1997 was represented to have been \$723,017,000, and net income for the same period was represented to have been \$81,319,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$148,180,000 for the three months ended June 30, 1997.

46. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 1997 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$75,730,000, or 104.5%. Using the effective tax rate of 38.1% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$46,877,000, or 136.1%. Retained earnings were represented to be \$669,514,000. This was overstated by the same amount that net income was cumulatively overstated, \$129,196,000, or by 23.9%. All

comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

47. Scrusby authorized and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company and listed himself as the first person to contact for information about the financial results contained in the Press Release.

48. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1997 - Third Quarter Announcements

49. On October 30, 1997, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 1997. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release quoted Scrusby as stating, falsely, that "[i]n the third quarter, we achieved record profitability."

50. On November 14, 1997, HealthSouth filed its Form 10-Q for the quarter ending September 30, 1997 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 1997 and December 31, 1996, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 1996 and 1997. The Form 10-Q also contained Notes

for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

51. The Press Release and the Form 10-Q for the third quarter of 1997 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 1997 was represented to have been \$748,730,000, and net income for the same period was represented to have been \$85,919,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$155,567,000 for the three months ended September 30, 1997.

52. The Company’s representations in the Press Release and Form 10-Q for the financial results of the third quarter of 1997 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$104,950,000, or 207.3%. Using the effective tax rate of 38.1% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$64,964,000, or 310%. Retained earnings were represented to be \$754,754,000. This was overstated by the same amount that net income was cumulatively overstated, \$194,160,000, or by 34.6%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

53. Scrusby authorized, caused the release of, and publicly supported these

false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

54. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1997 - Fourth Quarter and Full Year Announcements

55. On February 25, 1998, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 1997. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted Scrusby as stating, falsely, that HealthSouth's 1997 results represented "HealthSouth's 46th quarter of meeting or exceeding analysts' expectations, [which] demonstrates our ability to consistently produce superior financial results"

56. On March 30, 1998, HealthSouth filed its Form 10-K for the year ending December 31, 1997 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of December 31, 1997 and December 31, 1996, and Income Statements and Cash Flow Statements for the years ending December 31 for 1995, 1996, and 1997. The Form 10-K also presented certain summary financial

information for each quarter of both 1996 and 1997. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scrushy signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

57. The Press Release and the Form 10-K for the year 1997 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 1997 was represented to have been \$854,251,000, and net income for the same period was represented to have been \$98,790,000. Revenue for the full year was represented to have been \$3,017,269,000, and net income for the same period was represented to have been \$330,608,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$601,634,000 for the twelve months ended December 31, 1997.

58. The Company’s representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 1997 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$396,040,000, or 192.6%. Using the effective tax rate of 38.4% identified in the Form 10-K MD&A, the Company overstated net income for the year by \$243,960,640, or 281.5%. Using the effective tax rate of 38.4% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$103,857,600, taking true net

income into negative territory because the amount that HealthSouth had accrued for income taxes on the fictitious income exceeded its real pre-tax income. Retained earnings were represented to be \$853,641,000. This was overstated by the same amount that net income was cumulatively overstated, \$298,017,000, or by 53.6%. All comparisons to prior period results for the same categories in the Press Release and Form 10-K were also misstated.

59. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

60. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

1998 - First Quarter Announcements

61. On April 21, 1998, HealthSouth issued a press release from Birmingham, Alabama, announcing its first-quarter financial results for 1998. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted Scrusby as stating, falsely, that HealthSouth's 1998 first-quarter results represented the Company's "47th consecutive quarter of

meeting or exceeding analysts' expectations.”

62. On May 15, 1998, HealthSouth filed its Form 10-Q for the quarter ending March 31, 1998 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 1998 and December 31, 1997, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 1997 and 1998. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

63. The Press Release and the Form 10-Q for the first quarter of 1999 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on March 31, 1998 was represented to have been \$907,663,000, and net income for the same period was represented to have been \$109,368,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$197,918,000 for the three months ended March 31, 1998.

64. The Company's representations in the Press Release and Form 10-Q for the financial results of the first quarter of 1998 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$100,230,000, or 102.6%. Using the effective tax rate of 39.6% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$60,539,000, or 124%. Retained

earnings were represented to be \$962,988,000 as of March 31, 1998. This was overstated by the same amount that net income was cumulatively overstated, \$358,556,000, or by 59.3%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

65. Scrusy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

66. As explained below at ¶¶ 211-236, Scrusy knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1998 - Second Quarter Announcements

67. On July 21, 1998, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 1998. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusy reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusy as a person to contact for more information.

68. On August 14, 1998, HealthSouth filed its Form 10-Q for the quarter ending June 30, 1998 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 1998 and December 31, 1997, and

Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 1997 and 1998. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scruschy signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

69. The Press Release and the Form 10-Q for the second quarter of 1998 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 1998 was represented to have been \$942,482,000, and net income for the same period was represented to have been \$117,228,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$209,586,000 for the three months ended June 30, 1998.

70. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 1998 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$127,170,000, or 154.3%. Using the effective tax rate of 39.1% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$77,447,000, or 194.7%. Retained earnings were represented to be \$1,978,580,000 as of June 30, 1998. This was overstated by the same amount that net income was cumulatively overstated, \$436,003,000, or by 67.8%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

71. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

72. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1998 - Third Quarter Announcements

73. On October 27, 1998, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 1998. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

74. On November 16, 1998, HealthSouth filed its Form 10-Q for the quarter ending September 30, 1998 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 1998 and December 31, 1997, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 1997 and 1998. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

75. The Press Release and the Form 10-Q for the third quarter of 1998 presented different numbers for reported revenue but the same numbers for net income (income after taxes and minority interests) for the same periods. Revenue for the three months ending on September 30, 1998 was represented in the Form 10-Q to have been \$1,047,422,000, and net income for the same period was represented to have been \$5,670,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$87,747,000 for the three months ended September 30, 1998.

76. The Company’s representations in the Press Release and Form 10-Q for the financial results of the third quarter of 1998 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$167,170,000, which exceeded the reported number, pushing the true number into negative territory. Using the effective tax rate of 39.1% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$101,807,000, again pushing the true number into negative territory. Retained earnings were represented to be \$1,072,074,000 as of September 30, 1998. This was overstated by the same amount that net income was cumulatively overstated, \$537,810,000, or by 100.6%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

77. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for

information about the financial results contained in the Press Release.

78. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1998 - Fourth Quarter and Full Year Announcements

79. On March 4, 1999, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 1998. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

80. On March 31, 1999, HealthSouth filed its Form 10-K for the year ending December 31, 1999 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of December 31, 1999 and December 31, 1997, and Income Statements and Cash Flow Statements for the years ending December 31 for 1996, 1997, and 1998. The Form 10-K also presented certain summary financial information for each quarter of both 1997 and 1998. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

81. The Press Release and the Form 10-K for the year 1998 presented

identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 1998 was represented to have been \$1,040,809,000, and net income for the same period was represented to have been (\$193,844,000) (parentheses means a negative number). Revenue for the full year was represented to have been \$4,006,074,000, and net income for the same period was represented to have been \$46,558,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$267,373,000 for the twelve months ended December 31, 1998.

82. The Company’s representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 1998 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$603,040,000, again pushing the true number into negative territory. Using the effective tax rate of 39% identified in the Form 10-K MD&A, the Company overstated net income for the year by \$367,854,000, again pushing the true number into negative territory. Using the effective tax rate of 39% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$127,167,000, adding to the size of the admitted loss. Retained earnings were represented to be \$878,228,000 as of December 31, 1998. This was overstated by the same amount that net income was cumulatively overstated, \$664,977,000, or by 311.8%. All comparisons to prior period’s results for

the same categories in the Press Release and Form 10-K were also misstated.

83. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

84. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

1999 - First Quarter Announcements

85. On April 22, 1999, HealthSouth issued a press release from Birmingham, Alabama, announcing its first-quarter financial results for 1999. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

86. On May 14, 1999, HealthSouth filed its Form 10-Q for the quarter ending March 31, 1999 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 1999 and December 31, 1998, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 1999 and 1998. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman

of the Board and Chief Executive Officer.

87. The Press Release and the Form 10-Q for the first quarter of 1999 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on March 31, 1999 was represented to have been \$1,030,547,000, and net income for the same period was represented to have been \$109,905,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$206,348,000 for the three months ended March 31, 1999.

88. The Company’s representations in the Press Release and Form 10-Q for the financial results of the first quarter of 1999 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$85,430,000, or 70.7%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$51,685,000, or 88.8%. Retained earnings were represented to be \$984,183,000 as of March 31, 1999. This was overstated by the same amount that net income was cumulatively overstated, \$716,662,000, or by 267.9%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

89. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for

information about the financial results contained in the Press Release.

90. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1999 - Second Quarter Announcements

91. On August 3, 1999, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 1999. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

92. On August 13, 1999, HealthSouth filed its Form 10-Q for the quarter ending June 30, 1999 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 1999 and December 31, 1998, and Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 1998 and 1999. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

93. The Press Release and the Form 10-Q for the second quarter of 1999 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income

(income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 1999 was represented to have been \$1,047,632,000, and net income for the same period was represented to have been \$114,005,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$212,450,000 for the three months ended June 30, 1999.

94. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 1999 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$129,790,000, or 157%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$78,523,000, or 221.3%. Retained earnings were represented to be \$1,098,188,000 as of June 30, 1999. This was overstated by the same amount that net income was cumulatively overstated, \$795,185,000, or by 262.4%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

95. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

96. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company’s financial representations in the Press Release and Form 10-Q were false.

1999 - Third Quarter Announcements

97. On November 3, 1999, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 1999. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

98. On November 15, 1999, HealthSouth filed its Form 10-Q for the quarter ending September 30, 1999 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 1999 and December 31, 1998, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 1998 and 1999. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

99. The Press Release and the Form 10-Q for the third quarter of 1999 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 1999 was represented to have been \$993,341,000, and net income for the same period was represented to have been (\$4,330,000). The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this

category the Company had earned \$19,804,000 for the three months ended September 30, 1999.

99. The Company's representations in the Press Release and Form 10-Q for the financial results of the third quarter of 1999 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$63,800,000, exceeding the amount actually claimed, again pushing the true number into negative territory. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$38,599,000, making the true number even more negative. Retained earnings were represented to be \$1,091,001,000 as of September 30, 1999. This was overstated by the same amount that net income was cumulatively overstated, \$833,784,000, or by 324.2%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

100. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

101. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

1999 - Fourth Quarter and Full Year Announcements

102. On March 7, 2000, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 1999. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusy reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusy as a person to contact for more information.

103. On March 30, 2000, HealthSouth filed its Form 10-K for the year ending December 31, 1999 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of December 31, 1999 and December 31, 1998, and Income Statements and Cash Flow Statements for the years ending December 31 for 1997, 1998, and 1999. The Form 10-K also presented certain summary financial information for each quarter of both 1998 and 1999. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scrusy signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

104. The Press Release and the Form 10-K for the year 1999 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 1999 was represented to have been \$1,000,587,000, and net income for the same period was

represented to have been (\$143,063,000). Revenue for the full year was represented to have been \$4,072,107,000, and net income for the same period was represented to have been \$76,517,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$229,915,000 for the twelve months ended December 31, 1999.

105. The Company’s representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 1999 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$402,460,000, again pushing the true number into negative territory. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the year by \$243,791,000, again pushing the true number into negative territory. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$74,984,000, increasing the reported loss by close to 50%. Retained earnings were represented to be \$948,385,000 as of December 31, 1999. This was overstated by the same amount that net income was cumulatively overstated, \$908,768,000, or 2293.9%. All comparisons to prior period results for the same categories in the Press Release and Form 10-K were also misstated.

106. Scrusy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

107. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

2000 - First Quarter Announcements

108. On April 24, 2000, HealthSouth issued a press release from Birmingham, Alabama, announcing its first-quarter financial results for 2000. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted Scrusby as stating, falsely, that HealthSouth's 2000 first-quarter results "exceeded consensus Wall Street estimates."

109. On May 15, 2000, HealthSouth filed its Form 10-Q for the quarter ending March 31, 2000 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 2000 and December 31, 1999, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 1999 and 2000. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

110. The Press Release and the Form 10-Q for the first quarter of 2000 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income

(income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on March 31, 2000 was represented to have been \$1,021,335,000, and net income for the same period was represented to have been \$65,326,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$133,685,000 for the three months ended March 31, 2000.

111. The Company’s representations in the Press Release and Form 10-Q for the financial results of the first quarter of 2000 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$25,400,000, or 23.5%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$15,367,000, or 30.8%. Retained earnings were represented to be \$1,010,846,000 as of March 31, 2000. This was overstated by the same amount that net income was cumulatively overstated, \$924,135,000, or 1065.8%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

112. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

113. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

2000 - Second Quarter Announcements

114. On July 18, 2000, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 2000. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

115. On July 26, 2000, HealthSouth filed its Form 10-Q for the quarter ending June 30, 2000 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 2000 and December 31, 1999, and Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 1999 and 2000. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

116. The Press Release and the Form 10-Q for the second quarter of 2000 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were

the same in both documents. Revenue for the three months ending on June 30, 2000 was represented to have been \$1,036,322,000, and net income for the same period was represented to have been \$65,213,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$135,655,000 for the three months ended June 30, 2000.

117. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 2000 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$51,270,000, or 60.8%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$31,018,000, or 90.7%. Retained earnings were represented to be \$1,075,354,000 as of June 30, 2000. This was overstated by the same amount that net income was cumulatively overstated, \$955,153,000, or 794.6%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

118. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

119. As explained below at ¶¶ 211-236, Scrushy knew, or was extremely reckless in not knowing, that the Company’s financial representations in the Press Release and Form 10-Q were false.

2000 - Third Quarter Announcements

120. On October 31, 2000, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 2000. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

121. On November 14, 2000, HealthSouth filed its Form 10-Q for the quarter ending September 30, 2000 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 2000 and December 31, 1999, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 1999 and 2000. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth under authorization as the Chairman of the Board and Chief Executive Officer.

122. The Press Release and the Form 10-Q for the third quarter of 2000 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 2000 was represented to have been \$1,060,457,000, and net income for the same period was represented to have been \$71,037,000. The Form 10-Q separately broke out

“income before income taxes and minority interests” and represented that for this category the Company had earned \$139,188,000 for the three months ended September 30, 2000.

123. The Company’s representations in the Press Release and Form 10-Q for the financial results of the third quarter of 2000 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$113,840,000, or 449.1%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$68,873,000, or 3182.6%. Retained earnings were represented to be \$1,144,820,000 as of September 30, 2000. This was overstated by the same amount that net income was cumulatively overstated, \$1,024,026,000, or 847.7%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

124. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

125. As explained below at ¶¶ 211-236, Scrushy knew, or was extremely reckless in not knowing, that the Company’s financial representations in the Press Release and Form 10-Q were false.

2000 - Fourth Quarter and Full Year Announcements

126. On March 6, 2001, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 2000. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

127. On March 29, 2001, HealthSouth filed its Form 10-K for the year ending December 31, 2000 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of December 31, 2000 and December 31, 1999, and Income Statements and Cash Flow Statements for the years ending December 31 for 1998, 1999, and 2000. The Form 10-K also presented certain summary financial information for each quarter of both 1999 and 2000. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

128. The Press Release and the Form 10-K for the year 2000 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 2000 was represented to have been \$1,077,001,000, and net income for the same period was

represented to have been \$76,889,000. Revenue for the full year was represented to have been \$4,195,115,000, and net income for the same period was represented to have been \$278,465,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$559,354,000 for the twelve months ended December 31, 2000.

129. The Company’s representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 2000 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$348,950,000, or 165.8%. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the year by \$211,115,000, or 313.5%. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$95,856,000, again turning a false positive number into a negative true number. Retained earnings were represented to be \$1,224,950,000 as of December 31, 2000. This was overstated by the same amount that net income was cumulatively overstated, \$1,119,882,000, or 1065.8%. All comparisons to prior period results for the same categories in the Press Release and Form 10-K were also misstated.

130. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

131. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

2001 - First Quarter Announcements

132. On April 26, 2001, HealthSouth issued a press release from Birmingham, Alabama, announcing its first-quarter financial results for 2001. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

133. On May 15, 2001, HealthSouth filed its Form 10-Q for the quarter ending March 31, 2001 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 2001 and December 31, 2000, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 2000 and 2001. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

134. The Press Release and the Form 10-Q for the first quarter of 2001 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were

the same in both documents. Revenue for the three months ending on March 31, 2001 was represented to have been \$1,090,462,000, and net income for the same period was represented to have been \$75,311,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$149,462,000 for the three months ended March 31, 2001.

135. The Company’s representations in the Press Release and Form 10-Q for the financial results of the first quarter of 2001 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$60,530,000, or 68.1%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$36,621,000, or 94.7%. Retained earnings were represented to be \$1,300,261,000 as of March 31, 2001. This was overstated by the same amount that net income was cumulatively overstated, \$1,156,501,000, or 804.5%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

136. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

137. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company’s financial representations in the Press Release and Form 10-Q were false.

2001 - Second Quarter Announcements

138. On July 31, 2001, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 2001. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

139. On August 9, 2001, HealthSouth filed its Form 10-Q for the quarter ending June 30, 2001 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 2001 and December 31, 2000, and Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 2000 and 2001. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

140. The Press Release and the Form 10-Q for the second quarter of 2001 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 2001 was represented to have been \$1,098,989,000, and net income for the same period was represented to have been (\$19,947,000). The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the

Company had earned (\$3,025,000) for the three months ended June 30, 2001.

141. The Company's representations in the Press Release and Form 10-Q for the financial results of the second quarter of 2001 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$228,000,000, making a negative number more so. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$137,940,000, again making a negative number more so. Retained earnings were represented to be \$1,283,823,000 as of June 30, 2001. This was overstated by the same amount that net income was cumulatively overstated, \$1,294,443,000. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

142. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

143. As explained below at ¶¶ 211-236, Scrushy knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

2001 - Third Quarter Announcements

144. On October 25, 2001, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 2001. The

announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information. The release also quoted him as stating, falsely, that “we again met Wall Street’s earnings expectations.”

145. On November 12, 2001, HealthSouth filed its Form 10-Q for the quarter ending September 30, 2001 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 2001 and December 31, 2000, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 2000 and 2001. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

146. The Press Release and the Form 10-Q for the third quarter of 2001 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 2001 was represented to have been \$1,075,874,000, and net income for the same period was represented to have been \$79,126,000. The Form 10-Q separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$152,912,000 for the three months ended September 30, 2001.

147. The Company's representations in the Press Release and Form 10-Q for the financial results of the third quarter of 2001 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$120,040,000, or 365.2%. Using the effective tax rate of 39.5% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$72,624,000, or 1116.9%. Retained earnings were represented to be \$1,362,948,000 as of September 30, 2001. This was overstated by the same amount that net income was cumulatively overstated, \$1,367,067,000. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

148. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

149. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

2001 - Fourth Quarter and Full Year Announcements

150. On March 12, 2002, HealthSouth issued a press release from Birmingham, Alabama, announcing its fourth-quarter and full-year financial results for 2001. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue

components, types of expenses, profit categories, and per share data. Scrushy reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrushy as a person to contact for more information.

151. On March 27, 2002, HealthSouth filed its Form 10-K for the year ending December 31, 2001 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of December 31, 2001 and December 31, 2000, and Income Statements and Cash Flow Statements for the years ending December 31 for 1999, 2000, and 2001. The Form 10-K also presented certain summary financial information for each quarter of both 2000 and 2001. The Form 10-K also contained Notes for the Financial Statements and an MD&A discussion. Scrushy signed the Form 10-K on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

152. The Press Release and the Form 10-K for the year 2001 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on December 31, 2001 was represented to have been \$1,115,152,000, and net income for the same period was represented to have been \$67,898,000. Revenue for the full year was represented to have been \$4,380,477,000, and net income for the same period was represented to have been \$202,387,000. The Form 10-K separately broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$433,734,000 for the twelve months ended December 31, 2001.

153. The Company's representations in the Press Release and Form 10-K for the financial results of the fourth quarter and full year for 2001 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the year by \$576,030,000, making the true number negative. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the year by \$348,498,000, again making the true number negative. Using the effective tax rate of 39.5% identified in the Form 10-K MD&A, the Company overstated net income for the fourth quarter by \$101,313,000, again making the true number negative. Retained earnings were represented to be \$1,430,846,000 as of December 31, 2001. This was overstated by the same amount that net income was cumulatively overstated, \$1,468,380,000. All comparisons to prior period results for the same categories in the Press Release and Form 10-K were also misstated.

154. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-K on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

155. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-K were false.

2002 - First Quarter Announcements

156. On May 2, 2002, HealthSouth issued a press release from Birmingham,

Alabama, announcing its first-quarter financial results for 2002. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

157. On May 10, 2002, HealthSouth filed its Form 10-Q for the quarter ending March 31, 2002 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of March 31, 2002 and December 31, 2001, and Income Statements and Cash Flow Statements for the quarters ending March 31 for 2001 and 2002. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

158. The Press Release and the Form 10-Q for the first quarter of 2002 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on March 31, 2002 was represented to have been \$1,129,775,000, and net income for the same period was represented to have been \$107,749,000. Both documents also broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$203,851,000 for the three months ended March 31, 2002.

159. The Company's representations in the Press Release and Form 10-Q for the financial results of the first quarter of 2002 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$76,330,000, or 59.9%. Using the effective tax rate of 38.75% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$46,752,000, or 76.6%. Retained earnings were represented to be \$1,538,595,000 as of March 31, 2002. This was overstated by the same amount that net income was cumulatively overstated, \$1,515,132,000, or by 6457.5%. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

160. Scrushy authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

161. As explained below at ¶¶ 211-236, Scrushy knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

2002 - Second Quarter Announcements

162. On August 7, 2002, HealthSouth issued a press release from Birmingham, Alabama, announcing its second-quarter financial results for 2002. The announcement also included references to prior period results, and breakdowns of the financial data

from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued. The release listed Scrusby as a person to contact for more information.

163. On August 14, 2002, HealthSouth filed its Form 10-Q for the quarter ending June 30, 2002 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of June 30, 2002 and December 31, 2001, and Income Statements and Cash Flow Statements for the quarters and the six-month periods ending June 30 for 2001 and 2002. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Scrusby signed the Form 10-Q on behalf of HealthSouth as the Chairman of the Board and Chief Executive Officer.

164. The Press Release and the Form 10-Q for the second quarter of 2002 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on June 30, 2002 was represented to have been \$1,163,683,000 and net income for the same period was represented to have been \$57,506,000. Both documents also broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$133,619,000 for the three months ended June 30, 2002.

165. The Company’s representations in the Press Release and Form 10-Q for the financial results of the second quarter of 2002 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its

income before income taxes and minority interests for the quarter by \$109,590,000, or 456.1%. Using the effective tax rate of 44.3% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$61,042,000. Retained earnings were represented to be \$1,512,936 as of June 30, 2002. This was overstated by the same amount that net income was cumulatively overstated, \$1,576,174,000. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

166. Scrusby authorized, caused the release of, and publicly supported these false statements. He signed the Form 10-Q on behalf of the Company. Further, he took ownership of the Press release by identifying himself as the first person to contact for information about the financial results contained in the Press Release.

167. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

2002 - Third Quarter Announcements

168. On November 5, 2002, HealthSouth issued a press release from Birmingham, Alabama, announcing its third-quarter financial results for 2002. The announcement also included references to prior period results, and breakdowns of the financial data from various perspectives, such as revenue components, types of expenses, profit categories, and per share data. Scrusby reviewed the press release before it was issued, approved it, and caused it to be issued.

169. On November 14, 2002, HealthSouth filed its Form 10-Q for the quarter

ending September 30, 2002 with the SEC in Washington, D.C. This document contained Balance Sheets for the Company as of September 30, 2002 and December 31, 2001, and Income Statements and Cash Flow Statements for the quarters and the nine-month periods ending September 30 for 2001 and 2002. The Form 10-Q also contained Notes for the Financial Statements and an MD&A discussion. Although Scrusby did not sign the original Form 10-Q, he did sign an amended Form 10-Q that was submitted and accepted for filing by the SEC on February 18, 2003. The relevant financial numbers are the same in both the original and amended Form 10-Q.

170. The Press Release and the Form 10-Q for the third quarter of 2002 presented identical numbers for the financial categories that directly overlapped in the two documents. For example, both documents reported revenue and net income (income after taxes and minority interests) for the same periods, and those numbers were the same in both documents. Revenue for the three months ending on September 30, 2002 was represented to have been \$1,093,785,000, and net income for the same period was represented to have been \$53,614,000. Both documents also broke out “income before income taxes and minority interests” and represented that for this category the Company had earned \$117,354,000 for the three months ended September 30, 2002.

171. The Company’s representations in the Press Release and Form 10-Q for the financial results of the third quarter of 2002 were materially false. By inflating its revenue through the process described below, at ¶¶ 197-210, the Company overstated its income before income taxes and minority interests for the quarter by \$49,310,000, or 72.5%. Using the effective tax rate of 38.75% identified in the Form 10-Q MD&A, the Company overstated net income for the quarter by \$30,202,000, or 129%. Retained

earnings were represented to be \$1,565,675,000 as of September 30, 2002. This was overstated by the same amount that net income was cumulatively overstated, \$1,606,376,000. All comparisons to prior period results for the same categories in the Press Release and Form 10-Q were made misleading by these misrepresentations.

172. Scrusby authorized and publicly supported these false statements. He signed the amended Form 10-Q on behalf of the Company, which contained a separate certification as to the accuracy of the financial statements under the Sarbanes-Oxley law.

173. As explained below at ¶¶ 211-236, Scrusby knew, or was extremely reckless in not knowing, that the Company's financial representations in the Press Release and Form 10-Q were false.

Annual Reports To Stockholders:

174. Each year from 1996 through 2001, HealthSouth issued an annual report to stockholders, including a signed letter from Scrusby. The HealthSouth annual reports for 1996-2001 included a "Financial Highlights" section containing materially false information regarding HealthSouth's financial results, including HealthSouth's revenue, income, assets, and retained earnings. These numbers were drawn from the annual Form 10-Ks described above, and were false for the same reasons given above. Scrusby reviewed, authorized, and signed each of these reports while knowing or recklessly disregarding that each contained materially false information, as explained below at ¶¶ 211-236. He then caused the reports to be released to the shareholders of HealthSouth.

175. In addition to the false figures in the Financial Highlights section, in the 1997 HealthSouth Annual Report, Scrusy falsely stated that HealthSouth "extended our record to 46 quarters of meeting market expectations."

176. In addition to the false figures in the Financial Highlights section, in the 1998 HealthSouth Annual Report, Scrusy falsely stated that HealthSouth "completed 50 quarters of meeting market expectations" and that "[t]he management team at HealthSouth adheres to superior operational controls"

177. In addition to the false figures in the Financial Highlights section, in the 2000 HealthSouth Annual Report, Scrusy falsely stated that HealthSouth "fulfilled Wall Street expectations for yet another year, maintaining our position as the Fortune 500 company with the second-longest streak for meeting or exceeding analysts' expectations."

178. In addition to the false figures in the Financial Highlights section, in the 2001 HealthSouth Annual Report, Scrusy falsely stated that HealthSouth "celebrated another year of fulfilling Wall Street expectations."

False Certifications

179. Commission Order No. 4-460 (June 27, 2002) required the Company's CEO and CFO to certify under oath, on or before August 14, 2002, that HealthSouth's 2001 Form 10-K, and the Form 10-Qs for the first two quarters of 2002 contained no "untrue statement of material fact." On or about August 14, 2002, Scrusy certified under oath that HealthSouth's 2001 Form 10-K and the Forms 10-Q for the first two quarters of 2002 contained no "untrue statement of material fact." This certification was false and

was known by Scrusby to be false, as explained below at ¶¶ 211-236. The financial statements accompanying HealthSouth's Form 10-K for 2001 and HealthSouth's quarterly reports for the first two quarters of 2002 contained numerous false statements regarding HealthSouth's revenue, income, and retained earnings for the relevant periods, for the reasons stated above.

180. The Sarbanes-Oxley Act required that each Form 10-K and 10-Q filed with the Commission after July 30, 2002 be accompanied by a written certification by the CEO and the CFO stating that information in the report fairly presented, in all material respects, the financial condition and results of operations of the reporting company. On or about August 14, 2002, Scrusby signed a Sarbanes-Oxley ("1350") certification for the Form 10-Q for the quarter ending June 30, 2002 attesting to the accuracy of the published financial statements in that document. Scrusby knew, or recklessly disregarded, that these certifications were false, for the reasons stated above, and as explained below at ¶¶ 211-236.

Registration Statements for Debt Securities

181. During the period from July 1996 to March 2003, HealthSouth issued numerous debt securities. The registration statements filed by HealthSouth with the SEC with regard to these debt securities incorporated the financial statements from HealthSouth's most recent SEC filings, including the most recent Form 10-K. In each case, those financial statements contained false financial information, including false revenue, income, asset, and retained earnings figures, for the reasons stated above. Scrusby signed each registration statement while knowing, or recklessly disregarding,

that it contained or incorporated false financial information, as explained below at ¶¶ 211-236.

Registration Statements for Common Stock:

182. During the period from July 1996 to March 2003, HealthSouth issued common stock on numerous occasions. The prospectus and registration statement for each such issuance of common stock incorporated the financial statements in the most recent HealthSouth SEC filings, including the annual Form 10-K, which contained false financial information, for the reasons stated above. Scrusby signed each such registration statement knowing, or recklessly disregarding, that it contained false financial information, as explained below at ¶¶ 211-236.

Conference Calls:

183. Between July 1996 and March 2003, Scrusby participated from Birmingham, Alabama in numerous conference calls with various parties to discuss HealthSouth's financial results. In each of these conference calls, Scrusby made false statements regarding HealthSouth's financial results. Scrusby's statements tracked the false financial statements made in the then current press release and SEC filings, and were false for the same reasons stated above. Scrusby knew that his statements were false, or was extremely reckless in not knowing that they were false, as explained below at ¶¶ 211-236. The following is a partial list of such conference calls for which recorded audio tapes exist:

Conference call on 4/27/99 regarding 1st quarter 1999 earnings.

Conference call on 8/3/99 regarding 2nd quarter 1999 earnings.
Conference call on 4/25/00 regarding 1st quarter 2000 earnings.
Conference call on 7/18/00 regarding 2nd quarter 2000 earnings.
Conference call on 10/31/00 regarding 3rd quarter 2000 earnings.
Conference call on 3/6/01 regarding 4th quarter 2000 earnings.
Conference call on 4/26/01 regarding 1st quarter 2001 earnings.
Conference call on 7/31/01 regarding 2nd quarter 2001 earnings.
Conference call on 10/25/01 regarding 3rd quarter 2001 earnings.
Conference call on 3/12/02 regarding 4th quarter 2001 earnings.
Conference call on 5/2/02 regarding 1st quarter 2002 earnings.
Conference call on 8/7/02 regarding 2nd quarter 2002 earnings.
Conference call on 11/5/02 regarding 3rd quarter 2002 earnings.
Conference call on 3/3/03 regarding 4th quarter 2002 earnings.

184. For example, on April 27, 1999, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusy made the following additional misrepresentations:

“I’m pleased to report that HealthSouth exceeded analysts’ for the first quarter of 1999.”

“We have a lot of new projects underway, and we feel good about being able to come out with this number, and exceed the analysts’ 25 cents consensus that was out there.”

At the time, Scrusy knew these statements were false.

185. On August 3, 1999, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Second quarter earnings per share [were] 27 cents, in line with what the analysts had on the company.”

“So in summary, the company met the expectation of the street and in a very uncertain and difficult health care environment where many companies have had difficulty.”

At the time, Scrusby knew these statements were false.

186. On April 25, 2000, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“[T]he company’s proud to announce that our operating results for the quarter ending March 31, 2000, did exceed the analysts’ expectations. Revenues were \$1 billion, 1 million for the quarter; net income was about \$65 million - \$65.3 million.”

“In the 1st quarter of 2000, revenues, EBITA, and earnings per share all exceed the estimates, as I said.”

At the time, Scrusby knew these statements were false.

187. On July 18, 2000, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons Scrusby made the following additional misrepresentations:

“Earnings per share assuming dilution was 17 cents for 2000 quarter, consistent with consensus Wall Street estimates, compared to 27 cents in the 1999 quarter.”

“...[W]e did meet the second quarter consensus of EPSs estimate of 17 cents a share.”

At the time, Scrusby knew these statements were false.

188. On October 31, 2000, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“I’d like to start by saying that we met the third quarter consensus EPS estimate of 18 cents. Again up 13% over the third quarter of ’99.”

At the time, Scrusby knew these statements were false.

189. On March 6, 2001, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Earnings per share, assuming dilution, were 19 cents for the [fourth] 2000 quarter, consistent with consensus Wall Street estimates, an increase of 19% as compared to income per share before unusual and nonrecurring expenses of 16 cents in the 1999 quarter.”

At the time, Scrusby knew these statements were false.

190. On April 26, 2001, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Earnings per share assuming dilution were 19 cents for the 2001 quarter consistent with consensus Wall Street estimates, and increase of 12% as compared to earnings per share, assuming dilution of 17 cents in the 2000 quarter.”

At the time, Scrusby knew these statements were false.

191. On July 31, 2001, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Again, we had a very strong second quarter result, operating earnings were up 27% versus the second quarter of last year 21 cents earnings per share exceeded consensus estimates of 20 cents a share, up 24% over the second quarter of last year.”

“I’m very pleased with the results and proud to be able to announce today that we beat the consensus estimates by one cent.”

At the time, Scrusby knew these statements were false.

192. On October 25, 2001, a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Earnings per share assuming dilution were 20 cents for the 2001 quarter, consistent with consensus Wall Street estimates and representing an increase of 11% as compared to earnings per share assuming dilution of 18 cents in the 2000 quarter.”

“Again, we are very pleased that we met the Wall Street earning expectations, and we continue to implement our strategic plan.”

At the time, Scrusby knew these statements were false.

193. In March 12, 2000, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Now for 2001 year-end results, full-year earnings per share of 82 cents exceeded consensus earning estimates by 1 penny and that’s up 15% versus 2000.”

“22 cents” EPS, for those that came in late. We met our consensus estimates. Full year EPS of 82 cents. I’m giving you year end result here, just a quick summary. Full year EPS of 82 cents, exceeds consensus earning estimates by one penny, up 15% versus 2000.”

At the time, Scrusby knew these statements were false.

194. On May 2, 2002, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investor, and other interested persons, Scrusby made the following additional misrepresentations:

“So in summary, our first quarter results, 27 cents EPS, we met the estimates again, up 42% over first quarter. Had record quarterly revenues of \$1.130 [billion].”

At the time, Scrusby knew these statements were false.

195. On August 7, 2002, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations, among others:

“Very strong second quarter results, 20 cents EPS met consensus estimates, up 33% over second quarter of last year.”

At the time, Scrusby knew these statements were false.

196. On September 19, 2002, during a conference call hosted by HealthSouth, in Birmingham, Alabama, for the benefit of stockholders, investors, and other interested persons, Scrusby made the following additional misrepresentations:

“Before we go further, I would like to emphasize that the company is in solid financial health, and we continue to lead the industry in providing superior, cost effective clinical outcomes.”

At the time, Scrusby knew these statements were false.

THE FALSE ENTRY FRAUD

197. The fraud at HealthSouth from the second quarter of 1996 through March of 2003 consisted of fabricating the existence of revenue, the top line of the income statement, with the impact of this fabrication dropping through to the bottom line of the income statement, net income. To hide or cover-up the fabricated revenue and income, the fraud required the creation of fictitious assets on the balance sheet. In the end, by the time of HealthSouth's final Form 10-K filing before the discovery of the fraud (for December 31, 2001), over 90% of the general ledger accounts at HealthSouth that had active balances in them contained misstatements.

198. The scheme to fabricate earnings by making fictitious bookkeeping entries began in early July 1996 when Aaron Beam, HealthSouth's then CFO, and Bill Owens, HealthSouth's then controller, showed Scrusy HealthSouth's true earnings for the second quarter of 1996, and told him that HealthSouth would not meet Wall Street's expectations. They also told Scrusy that HealthSouth could no longer boost earnings through non-GAAP accounting for real transactions sufficiently to close the gap with what Wall Street was anticipating. Scrusy responded that missing the Wall Street projections was not an option, and instructed Beam and Owens to "fix" the numbers, and "get them to where they need to be."

199. Owens and assistant controller Ken Livesay then devised a plan to artificially inflate HealthSouth's earnings by recording fictitious revenue and assets. Pursuant to this plan, they falsified figures for the second quarter of 1996 and prepared new reports based on those false figures. Just prior to the press release for the quarter, July 16, 1996, Beam and Owens then met with Scrusy, showed him the revised

quarterly figures, and explained the false entry scheme. Scrushy approved the scheme and directed that the false quarterly financial reports be issued.

200. A key factor in the fraud was the nature of the process by which HealthSouth recorded its revenue. HealthSouth provided healthcare services to individual patients and sometimes groups of patients. HealthSouth routinely billed insurance companies, the government, and other third-party payors instead of the patients. As is customary in the health care industry, HealthSouth billed the third-party payors more than it expected to collect. In the normal course, the total amount billed was entered on HealthSouth's books as gross revenue, while the amount HealthSouth did not expect to collect was entered in a "contractual adjustment" account. The contractual adjustment was subtracted from the gross revenue to calculate net revenue for the sale. As long as the contractual adjustment was accurate, the sale would be reported accurately.

201. The scheme proposed by Owens and Beam, and approved by Scrushy, called for revenues to be artificially inflated after the quarterly figures had been aggregated at the corporate level. This manipulation was to be carried out primarily by fraudulently decreasing the contractual adjustment account, thereby increasing net revenue. The false entries at the top of the income statement would flow through to the bottom line as false increases in quarterly earnings, and would be recorded on the balance sheet as false increases in HealthSouth's assets. Initially, the false assets were recorded as accounts receivable. To make detection more difficult, HealthSouth subsequently made false balance sheet entries to a "suspense account," and these entries were then distributed to cash or to other asset accounts in amounts small enough not to attract attention. In essence, HealthSouth created fictitious earnings by recording fictitious sales revenue, and then

covered up the process by claiming that the earnings had been used to buy various assets or add to the Company's cash account.

202. This fraudulent false entry scheme began with the figures for the second quarter of 1996 and continued until March 2003. After the end of each quarter during this period, HealthSouth's senior officers, including at different times Owens, Beam, Weston Smith, Michael Martin, Tadd McVay, and others, would prepare an analysis of HealthSouth's actual but unreported consolidated earnings ("first-run results") for the most recent quarter. The first-run results would be compared to Wall Street's expected earnings for the Company.

203. Whenever HealthSouth's actual results fell short of Wall Street's expectations (which was always the case after the first quarter of 1996), HealthSouth's senior financial officers would follow Scrusby's instructions to "fix it" by recording false revenue and earnings on HealthSouth's books. HealthSouth's senior accounting personnel would carry out this "fix" through a small group of employees at HealthSouth. By 1997, these employees referred to their meetings as "family meetings," and referred to themselves as "family members."

204. At these "family meetings," HealthSouth personnel discussed the false entries to be made to inflate reported earnings. After they agreed on the changes, they would enter these fictitious figures in HealthSouth's financial statements for the quarter, and in HealthSouth's press releases and other public statements regarding that quarter. Ultimately, they would incorporate these fictitious figures in HealthSouth's annual financial statements and in HealthSouth's public statements regarding its annual financial results.

205. The false entries were made in a manner calculated to avoid detection. Because the “contractual adjustment” was based on estimates of what third-party payors would pay, adjustments to that account was more difficult to verify than other revenue entries. Additionally, each increase in revenue and corresponding increase in assets was recorded through several intermediary journal entries, making the false entries more difficult to trace.

206. HealthSouth’s outside auditors questioned only additions to fixed assets if the additions exceeded a certain dollar threshold. When falsely increasing fixed asset accounts, those involved in the HealthSouth fraud were careful not to exceed that threshold.

207. The false entry fraud at HealthSouth also involved the creation of false documents to support the fictitious accounting entries. For example, when auditors attempted to check the cash account, they were given a bogus reconciliation schedule. When auditors asked for a fixed assets ledger for a facility, HealthSouth accounting personnel would re-generate the fixed asset ledger, adding specific fixed asset items that did not actually exist. When auditors questioned an addition to fixed assets at one HealthSouth facility in connection with an audit of HealthSouth's 2000 financials, HealthSouth personnel altered an existing invoice (reflecting an actual purchase at another facility) to fraudulently indicate that the facility being audited had purchased that asset.

208. The false entry fraud came to an end in March of 2003, when two senior participants came forward to the Department of Justice. Fifteen former HealthSouth employees eventually pleaded guilty to criminal charges and a sixteenth was convicted by a jury, all for their participation in the HealthSouth accounting fraud.

209. The full nature and scope of the false entry fraud was not revealed in complete detail until May of 2004, when HealthSouth's Special Audit Review Committee ("SARC") issued a report. The total pre-tax impact of the fraud as identified in the SARC Report was approximately \$2.6 billion. The following chart shows the amounts by which HealthSouth's income was overstated each quarter as reported in the Special Audit Review Committee Report:

**Improper Adjustments To Income Before Taxes And Minority Interests
(millions of dollars)**

	1Q	2Q	3Q	4Q	Total
1996		7.37	10.79	70.20	88.36
1997	46.76	75.73	104.95	168.60	396.04
1998	100.23	127.17	167.17	208.47	603.04
1999	85.43	129.79	63.80	123.94	402.96
2000	25.40	51.27	113.84	158.44	348.95
2001	60.53	228.00	120.04	167.46	576.03
2002	76.33	109.59	49.31	(9.80)	225.43
	Total				\$2,641

210. The SARC Report also identified the amounts by which HealthSouth's various assets were overstated as of the end of 2002 due to the fraud. The following chart reveals those details:

Improper Adjustments To Total Assets As Of December 31, 2002
(millions of dollars)

Property, Plant & Equipment	1,033
Cash	373
Horizon/CMS - IHS Transactions	414
Current Assets	703
Intangible Assets	118

Total	\$2,641

ALLEGATIONS CONCERNING SCRUSHY'S SCIENTER

211. Scrusby had a fiduciary duty to HealthSouth to exercise ordinary due care and diligence in carrying out his duties as Chairman and CEO. He also had a duty to the users of HealthSouth's financial statements to exercise ordinary due care in affirming the accuracy of these statements before he affixed his signature to the SEC filings that contained them. Part of that duty included communicating with his senior accounting personnel about matters involving financial reporting and accounting.

212. Throughout the relevant period, Scrusby held himself out as knowledgeable about HealthSouth's financial condition and the Company's financial reporting. He wrote letters to stockholders, signed every annual report, Form 10-K, and Form 10-Q, signed every registration statement and prospectus, and fielded questions from analysts and media representatives.

213. Scrusby also repeatedly claimed a command of financial detail. He told the *Birmingham Post-Herald* that he could "sit and look at a whole division and know per day what our run rates are." In press releases, Scrusby frequently discussed such accounting arcania as "accounts receivable days," "EBITDA margins," "non-recurring charges," and repeated references to "same-store volume" as it apparently relates to the accounting for surgery and rehabilitation care.

214. Scrusby managed HealthSouth by the numbers. Every week, on Friday, HealthSouth's accounting staff would generate "Weekly Summaries" showing selected financial results for all of the HealthSouth facilities. The raw data for these reports came from the facility managers or their designees. The Weekly Summaries focused on revenue and collections by month, on "run rates," and other recurring measures of

performance. The Weekly Summaries measured the results both against “projections” and “forecasts,” and calculated “variances” from what was expected. Scrushy would receive the Weekly Summaries on Fridays, and on the next Monday, in so-called “Monday Meetings,” Scrushy would use the Weekly Summary numbers to either praise or chastise facility managers. Literally dozens, if not hundreds, of different persons knew about Scrushy’s use and understanding of the Weekly Summaries.

215. According to all the senior financial persons who knew about both the compilation of the Weekly Summaries and about the false entry fraud, the numbers in the “Weekly Summaries” were real numbers, unaffected by the false entry fraud. There was thus a disparity between the financial numbers Scrushy was using to manage the Company on a regular basis and the financial numbers that Scrushy was presenting to the public.

216. Scrushy also ordered the creation of monthly financial statements, which he reviewed on a regular basis. According to the compilers of these reports, these monthly statements also used real numbers, unaffected by the false entry fraud, but easily correlated with it. There was thus another disparity between the financial numbers Scrushy was using to manage the Company on a regular basis and the financial numbers that Scrushy was presenting to the public.

217. According to at least Bill Owens and Weston Smith, Scrushy also had regular access to the Company’s quarterly consolidation worksheets, both with the fraud and without, and Scrushy understood the differences between them.

218. Scrusby both directed the commencement of the false entry fraud in mid-1996 following discussions with Aaron Beam and Bill Owens, and repeatedly demonstrated his continuing knowledge of the fraud.

219. Scrusby demonstrated his continuing knowledge of the fraud in late 1996 or early 1997, following one of the Monday Meetings, when he discussed cash collections with Weston Smith. Scrusby directly acknowledged his understanding of the process to Smith, who had not previously spoken to Scrusby about the matter.

220. In July or August of 1997, Bill Owens informed Scrusby that the Company had promised the SEC to stop capitalizing certain acquisition related costs for new facilities. This would adversely impact earnings, and Scrusby told Owens to find a means to replace the shortfall. Owens told Scrusby that he could replace the lost earnings through expanding the false entry fraud to create fictitious assets in the property, plant, and equipment account.

221. By the fall of 1997, Owens, who had helped devise the false entry scheme, advised Scrusby to abandon the fraud. Scrusby refused to do so.

222. 1998 was a difficult year for HealthSouth's business. In the fourth quarter, the Company took a nearly quarter billion dollar loss, including a \$400 million charge for leaving certain businesses. This presented an opportunity to end the fraud with less risk of detection. Scrusby rejected all such suggestions.

223. In or around December 1998, HealthSouth's then CFO, Michael Martin, told Scrusby that it was unlikely that HealthSouth could meet its projected earnings going forward. Scrusby refused to lower HealthSouth's unrealistic projections.

224. In the weeks between the close of the year and the March 1999 press release announcing the 1998 results, Ken Livesay met Scrusby in Martin's office to discuss the upcoming financial reports. Instead of ending the fraud, Scrusby told Livesay that they would have to just "hang in there."

225. In or around July 1999, HealthSouth's treasurer, Leif Murphy, who did not know of the false entry fraud, discussed HealthSouth's financial results with Scrusby. After analyzing the "first-run results" of each HealthSouth division, Murphy had concluded that HealthSouth's actual earnings were significantly below what HealthSouth had publicly reported. Murphy prepared a report on his findings. Murphy provided Scrusby with a copy of his material and conveyed this information to Scrusby at a meeting that Michael Martin also attended. Scrusby rejected Murphy's complaint.

226. In or around October 1999, Diana Henze, an Assistant Vice-President of Finance at HealthSouth, uncovered elements of the fraudulent scheme and complained to HealthSouth's compliance department. Martin told Scrusby about the complaint. Scrusby approved Martin's plan to have Henze transferred to another department where she would not be involved in corporate accounting. Scrusby also told Martin "don't let that happen again."

227. Shortly before the August 22, 2001 announcement of his appointment as CFO, Weston Smith had a face to face conversation with Scrusby about Smith's new position. The false entry fraud was a subject of the discussion. Scrusby told Smith that they had to keep the fraud going, and urged Smith's help to "keep this thing together."

228. On or around August 5, 2002, Smith, still HealthSouth's CFO, indicated that he had decided to quit HealthSouth because he did not want to certify that

HealthSouth's annual report for 2001 (Form 10-K) and HealthSouth's reports for the first two quarters of 2002 (10-Qs) contained no untrue statement of material fact. Scrusby ordered Owens to get Smith "back on the reservation." On or around August 6, 2002, Scrusby told Smith that if he signed the certification, Smith would be made the head of a new company being spun off from HealthSouth. Scrusby said that the new company's financial statements would not contain false financial information and Smith would not have to sign any more false statements. Scrusby also assured Smith that HealthSouth would begin reporting actual results and would no longer "create earnings." Both Scrusby and Smith subsequently signed the certification knowing that it was false.

229. In or around November 2002, HealthSouth's then CFO, Tadd McVay, expressed concerns to Scrusby that the cash reported on HealthSouth's balance sheet was inflated. Scrusby told McVay that all public companies "fudge" their numbers.

230. In the first week of January, 2003, Scrusby called McVay to his office. Scrusby and Owens were there. Scrusby told McVay that he was removing him as CFO, and that Owens would resume that position. McVay told Scrusby that he was relieved, because he was afraid that the cash balance inflation was going to be detected, and because he feared an audit of the Company's balance sheet would reveal the other fictitious assets. Scrusby turned to Owens and said: "what do we do about the cash situation?" Owens said the cash imbalance was a "big number" that would take time to work down "to get the number back to what the actual cash was."

231. During the first quarter of 2003, McVay had repeated discussions with the banks involved in the Company's credit line. The Company was likely to take a substantial charge in closing its 2002 annual financial statements, and the banks were not

interested in renewing their credit line on the same terms. One of the issues raised by the banks was the Company's unwillingness to use the nearly \$400 million of cash recorded on its balance sheet before it sought more loans. The \$400 million number on the balance sheet contained over \$350 million of fictitious cash created by the false entry fraud. McVay had numerous conversations with Scrushy about this credit problem, and the Company's dilemma due to its inability to provide an answer to the banks about why the Company's own cash was not available. Scrushy thoroughly understood that the problem arose because the cash amount in the Company's public financial statements was inflated by several hundred percent.

232. In early March, 2003, McVay attended a meeting in Scrushy's office with some members of a private investment group who were willing to consider providing new equity to a transaction in which Scrushy would take HealthSouth private in a leveraged buyout ("LBO"). After the outsiders left, McVay expressed concern to Scrushy that new investors would undoubtedly conduct a due diligence investigation of HealthSouth before committing to a deal, and that such an investigation would find the inflation of the cash and other assets. Scrushy told McVay to start the process anyway, and instructed him to contact an investment bank to get an idea of how such a transaction could be done.

234. McVay contacted UBS-Warburg, HealthSouth's regular investment banking firm, and started a process to evaluate the possible LBO transaction. The first set of estimates of the financial requirements for the deal assumed that HealthSouth's own cash could be used to pay down pre-existing debt. McVay knew that the cash did not really exist, and he formulated a request to UBS that they assume that the Company's

cash would not be used. He conferred with Scrusby about the non-existent cash issue on or about March 10, 2003 in McVay's office. Scrusby explicitly approved McVay's request to UBS. UBS responded with another set of estimates that assumed that HealthSouth's cash would not be used.

235. Above and beyond these discrete incidents demonstrating Scrusby's knowledge of the fraud, there was a systematic process whereby Owens would inform Scrusby and receive his approval before the false financial results would be made public. Throughout the entire false entry fraud, Owens would confer with Scrusby before finalizing each of the periodic press releases announcing HealthSouth's financial results. Scrusby would be informed of the "first-run" results, the proposed final set of results, and the differences between them due to the false entry fraud. HealthSouth would only produce the falsified financial statements after Owens had received Scrusby's knowing approval.

236. Finally, Scrusby actively helped to conceal the fraud by limiting the responsibilities of HealthSouth's internal auditors. While the internal auditors were allowed access to the books and records maintained by individual HealthSouth facilities, Scrusby denied the internal auditors access to HealthSouth's corporate accounting books and records, which were used to record the fictitious entries.

**NON-GAAP ACCOUNTING AND HEALTHSOUTH'S LACK OF ANY
INTERNAL ACCOUNTING CONTROLS**

237. Beginning in the early 1990's, HealthSouth employed non-GAAP accounting procedures to inflate the Company's quarterly earnings. These accounting procedures dealt with real transactions, but accounted for them improperly. Among the non-GAAP accounting techniques used by HealthSouth to increase earnings were: the creation of "cookie-jar" reserves in connection with HealthSouth's acquisitions; capitalization of "start-up" costs, promotional and marketing expenses, and inventory and supply expenses; failure to expense or write off assets at closed facilities; failure to adjust corporate accounts to reflect changes made to the books of local facilities; failure to properly account for employee loans; improper recording of gains on sale on investments; failure to recognize losses; and failure to properly account for properties leased by HealthSouth. HealthSouth officers referred to these non-GAAP practices as "aggressive accounting."

238. While HealthSouth's non-GAAP accounting practices enabled HealthSouth to meet earnings expectations prior to 1996, they also made it difficult for HealthSouth to continue to achieve earnings growth thereafter, in part because expenses from prior periods had been shifted to 1996 and later years. By mid-1996, HealthSouth was threatened with the prospect of being unable to maintain the appearance that earnings targets were being met.

239. The most complete disclosure of the impact of the HealthSouth financial reporting failures and the lack of internal accounting controls was made on June 27, 2005, when HealthSouth filed a Form 10-K containing a restatement of past financial results

(“Restatement”). The Restatement included financial reports for the years 2000, 2001, 2002, and 2003. The opening balance sheet for January 1, 2000 was restated, as were the income statements and balance sheets for years ending December 31, 2000 and 2001. In total, the Company acknowledged that by December 31, 2001, it had overstated retained earnings by at least \$3.9 billion.

240. The Restatement did not contain any restated numbers for 2002 because HealthSouth had not previously filed a Form 10-K for 2002. Based on analysis of the quarterly statements that were filed for 2002, the overstatement for 2002 can be reasonably estimated at approximately \$500,000,000.

241. Thus, while Scrusby was responsible for the overall management and control of HealthSouth, the Company falsely claimed more than \$4 billion of shareholder net worth that never existed. As detailed above, less than one-half of that amount is directly attributable to the false entry fraud. The rest is due either to other fraudulent acts, or a complete failure to maintain a system of internal accounting controls and financial record keeping standards.

SCRUSHY’S CONTROL OVER HEALTHSOUTH

242. Scrusby was one of the co-founders of HealthSouth, and was Chairman of the Board during its entire history as a public company until March 19, 2003. He was also CEO of the Company for the same period, except for a short time from August 27, 2002 until January 6, 2003. As such, Scrusby had the power to control the general affairs of HealthSouth during the period from July, 1996 through March, 2003. Scrusby exercised

this power throughout the period. He could, and did, hire and fire, promote or demote, reward or punish, many of those who worked throughout HealthSouth.

243. Scrusby also had the authority to exercise control over the internal accounting and external financial reporting functions at HealthSouth. He personally signed the SEC filings at HealthSouth, as well as SEC and Sarbanes-Oxley certifications, attesting to the accuracy of the books and records of the Company. Scrusby controlled the choice of CFO and other senior accounting positions at HealthSouth. As stated above, Scrusby also controlled the scope of the internal audit function at HealthSouth. Scrusby thus both had and exercised the power to control the accounting and financial reporting processes at HealthSouth.

SCRUSHY PROFITED FROM THE FRAUD

244. Scrusby received more than \$7 million in base salary from HealthSouth between July 1996 and March 2003.

245. Scrusby received approximately \$48 million in performance bonuses from HealthSouth between July 1996 and March 2003.

246. Between July 1996 and March 2003, Scrusby received over \$163 million in profit from sales of HealthSouth stock acquired pursuant to stock options. Scrusby sold this stock at prices inflated by the fraud, while knowing of the fraud and trading on the basis of this material non-public information. These stock sales were as follows:

a. From October 31 through November 7, 1996, Scrusby exercised options to purchase approximately 1 million HealthSouth shares for approximately \$2.5

million, and immediately sold these shares for approximately \$18.5 million, realizing a profit of over \$16 million;

b. On November 6, 1997, Scrusby exercised options to purchase approximately 4 million HealthSouth shares for approximately \$14.6 million, and immediately sold these shares for \$108 million, realizing a profit of over \$93 million; and

c. On May 14, 2002, Scrusby exercised options to purchase 5.4 million HealthSouth shares for approximately \$20 million, and immediately sold these shares for approximately \$74 million, realizing a profit of over \$54 million.

247. Scrusby would not have received the above-mentioned salary, bonuses, or profits from stock sales in the absence of the fraud he ordered and directed.

CLAIMS FOR RELIEF

CLAIM I

VIOLATIONS OF ANTI-FRAUD PROVISIONS AT 15 U.S.C. § 77Q(A)
[SECTION 17(A) OF THE SECURITIES ACT]

248. Paragraphs 1- 247 are hereby realleged and are incorporated herein by reference.

249. Scrushy, from 1996 through March 2003, in connection with the offer or sale of securities, by use of the means and instruments of transportation and communication in interstate commerce or by use of the mails,

(a) directly and indirectly employed devices, schemes and artifices to defraud purchasers of such securities;

(b) directly and indirectly obtained money or property by means of an untrue statement of a material fact or an omission to state a material fact necessary in order to make the statements made, not misleading; and

(c) engaged in transactions, practices and a course of business which would have operated as a fraud or deceit upon the purchasers of such securities, all as more particularly described in the paragraphs above.

250. Scrushy knowingly, intentionally, recklessly, and/or negligently engaged in the aforementioned devices, schemes and artifices to defraud.

251. By reason of the foregoing, Scrushy has violated, and unless restrained and enjoined will continue to violate, 15 U.S.C. § 77q(a) [§17(a) of the Securities Act].

CLAIM II

VIOLATIONS OF THE ANTI-FRAUD PROVISIONS AT 15 U.S.C. § 78J(B) [SECTION 10(B) OF THE EXCHANGE ACT] AND 17 C.F.R. § 240.10B-5 [RULE 10B-5]

252. Paragraphs 1 - 247 are hereby realleged and are incorporated herein by reference.

253. Scrusy, from 1996 through March 2003, in connection with the purchase or sale of HealthSouth' securities, described herein, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly:

- a) employed devices, schemes, and artifices to defraud;
- b) made untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and
- c) engaged in acts, practices, and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described in the paragraphs above.

254. Scrusy knowingly, intentionally, and/or recklessly engaged in the aforementioned devices, schemes and artifices to defraud, made untrue statements of material facts and omitted to state material facts, and engaged in fraudulent acts, practices and courses of business.

255. By reason of the foregoing, Scrusby has violated, and unless enjoined will continue to violate, 15 U.S.C. § 78j(b) [section 10(b) of the Exchange Act] and 17 C.F.R. § 240.10b-5 [Rule 10b-5 thereunder].

CLAIM III

AIDING AND ABETTING HEALTHSOUTH'S FINANCIAL REPORTING VIOLATIONS

256. Paragraphs 1 - 247 are hereby realleged and are incorporated herein by reference.

257. HealthSouth violated 15 U.S.C. § 78m(a) and 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13 [section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder] when it filed annual and periodic reports, and failed to correct annual and periodic reports previously filed, containing financial statements not prepared in conformity with GAAP and containing material misstatements.

258. Scrusby aided and abetted the HealthSouth financial reporting violations alleged in the preceding paragraph. Scrusby knowingly provided substantial assistance to HealthSouth in connection with these violations within the scope of 15 U.S.C. § 78t(e) [section 20(e) of the Exchange Act] and consequently is in violation of the financial reporting provisions to the same extent as HealthSouth.

CLAIM IV

AIDING AND BETTING BOOKS AND RECORDS AND INTERNAL CONTROLS VIOLATIONS

259. Paragraphs 1-247 are hereby realleged and are incorporated herein by reference.

260 HealthSouth violated 15 U.S.C. §§ 78m(b)(2)(A) [13(b)(2)(A) of the Exchange Act] when it failed to make and keep books, records, and accounts that accurately and fairly reflected HealthSouth's transactions and the disposition of HealthSouth's assets.

261. HealthSouth violated 15 U.S.C. §§ 78m(b)(2)(B) [13(b)(2)(B) of the Exchange Act] when it failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (a) transactions were executed in accordance with management's general or specific authorization; (b) transactions were recorded as necessary (i) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (ii) to maintain accountability of assets; (c) access to assets was permitted only in accordance with management's general or specific authorization; and (d) the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

262. Scrushy aided and abetted the HealthSouth books and records and internal controls violations alleged in the preceding two paragraphs. Scrushy knowingly provided substantial assistance to HealthSouth in connection with these violations within the scope of 15 U.S.C. § 78t(e) [section 20(e) of the Exchange Act] and consequently is deemed to be in violation of these provisions to the same extent as HealthSouth.

CLAIM V

BOOKS AND RECORDS AND INTERNAL CONTROLS VIOLATIONS

263 Paragraphs 1 - 247 are hereby realleged and are incorporated herein by reference.

264. 15 U.S.C § 78m(b)(5) [Section 13(b)(5) of the Exchange Act] prohibits any person from knowingly circumventing or failing to implement a system of internal accounting controls, or knowingly falsifying any book, record, or account required by 15 U.S.C. §§ 78m(b)(2)(A) [section 13(b)(2)(A) of the Exchange Act]. 17 C.F.R. §240.13b2-1 [Rule 13b2-1] prohibits any person from directly or indirectly falsifying or causing the falsification of such books, records or accounts. By directing the circumvention and falsification of HealthSouth's accounting records, and by helping to prevent detection of these circumventions and falsifications, Scrusby violated these internal control provisions.

CLAIM VI

CONTROL PERSON LIABILITY IN CONNECTION WITH HEALTHSOUTH'S VIOLATIONS

265. Paragraphs 1 - 247 are hereby realleged and are incorporated herein by reference.

266. HealthSouth, acting knowingly, intentionally, and/or recklessly, in connection with the purchase or sale of HealthSouth' securities, by the use of the means and instrumentalities of interstate commerce and by use of the mails, directly and indirectly: (a) employed devices, schemes, and artifices to defraud; (b) made untrue

statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices, and courses of business which would and did operate as a fraud and deceit upon the purchasers of such securities, all as more particularly described in the paragraphs above, and by reason of the foregoing violated 15 U.S.C. § 78j(b) [section 10(b) of the Exchange Act] and 17 C.F.R. § 240.10b-5 [Rule 10b-5 thereunder].

267. HealthSouth violated its financial reporting, books and records, and internal controls obligations as alleged in Paragraphs 256 - 262 above.

268. When HealthSouth violated the anti-fraud provisions of 15 U.S.C. § 78j(b) [section 10(b) of the Exchange Act] and 17 C.F.R. § 240.10b-5 [Rule 10b-5 thereunder] as alleged in Paragraph 266 above, and when HealthSouth violated its financial reporting, books and records, and internal controls obligations as alleged in Paragraph 267 above, Scrushy was Chairman and CEO of HealthSouth and was consequently a "control person" with regard to HealthSouth within the meaning of 15 U.S.C. § 78t(a) [Section 20(a) of the Exchange Act].

270. Because he was a control person with regard to HealthSouth, Scrushy is liable with and to the same extent as HealthSouth for HealthSouth's violations of the anti-fraud provisions and its financial reporting, books and records, and internal controls obligation.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff respectfully prays for judgment imposing the following relief:

- (i) An injunction consistent with the violations proven in this case;
- (ii) An order requiring Scrushy to disgorge all ill-gotten gains, and all losses avoided, as a result of the violations proven in this case, plus prejudgment interest;
- (iii) An order requiring Scrushy, pursuant to 15 U.S.C. 77t(d) [section 20(d) of the Securities Act] and 15 U.S.C. 78u(d)(3) and 78u-1 [sections 21(d)(3) and 21A of the Exchange Act] to pay civil monetary penalties for each misrepresentation, omission, or misleading statement delineated above, and each instance of insider trading, subject to any applicable statute of limitations on penalties;
- (iv) An order pursuant to 15 U.S.C. § 77t(e) [section 20(e) of the Securities Act] and 15 U.S.C. § 78u(d)(2) [section 21(d)(2) of the Exchange Act] prohibiting defendant Scrushy from acting as an officer or director of any issuer that has a class of securities registered with the Commission pursuant to 15 U.S.C. § 78l [section 12 of the Exchange Act] or is required to file reports with the Commission pursuant to 15 U.S.C. § 78o(d) [section 15(d) of the Exchange Act].
- (v) An order retaining jurisdiction to implement the orders entered in this matter, including this Court's June 22, 2005 Final Judgment against HealthSouth, and to entertain applications for additional relief; and

(vi) Such other relief as may be necessary or appropriate.

JURY DEMAND

Plaintiff demands a trial by jury.

s/ John D. Worland, Jr.
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Atlanta, Georgia 30326-1234

Certificate Of Service

I hereby certify that on December 30, 2005, I electronically filed the foregoing Third Amended Complaint with the Clerk of the Court using the CM/ECF system, which will send notification of such filing to the following:

Edward E. Angwin
Gary H. Baise
H. Lewis Gillis
William Hicks
Arthur Leach
Alan Lieberman
Madison G. Loomis
Joseph B Mays, Jr
Leslie V. Moore
J. Marbury Rainer
Alex Rue
David G. Russell
Jack W. Selden
H. Michael Semler
Richard Lee Sharff, Jr
Kile T. Turner
Donald V. Watkins
John D. Worland, Jr.

I hereby further certify on that on December 30, 2005, I mailed a copy of the Third Amended Complaint via U.S. Mail, first class postage prepaid, to the following non-CM/ECF participants:

Eric Green
Resolutions LLC
222 Berkeley Street
Boston, Massachusetts 02116

s/John D. Worland, Jr.
John D. Worland, Jr.