

APPENDIX I: CLASS ACTIONS PLAN OF ALLOCATION FOR STOCKHOLDER CLASS AND BONDHOLDER CLASS

The Settlement Fund will be distributed to Class Members who submit valid, timely Proof of Claim and Release forms under the Plan of Allocation described below. Under the Plan of Allocation, the date of purchase or sale is the “contract” or “trade” date as distinguished from the “settlement” date.

For Class Members who held HealthSouth securities at the beginning of the Stockholder Class Period or the Bondholder Class Period or made multiple purchases or other acquisitions or sales during the Stockholder Class Period or the Bondholder Class Period, the first-in, first-out (“FIFO”) method will be applied to such holdings, purchases and sales for purposes of calculating a claim. Under the FIFO method, sales of securities during the Stockholder Class Period and the Bondholder Class Period will be matched, in chronological order, first against securities held at the beginning of the Stockholder Class Period and the Bondholder Class Period. The remaining sales of securities during the Stockholder Class Period and the Bondholder Class Period will then be matched, in chronological order, against shares purchased during the Stockholder Class Period and the Bondholder Class Period.

A Class Member will be eligible to receive a distribution from the settlement proceeds in the Federal Actions only if a Class Member has a net loss, after all profits from transactions in HealthSouth securities during the Stockholder Class Period and the Bondholder Class Period are subtracted from all losses. However, the proceeds from sales of securities which have been matched against securities held at the beginning of the Stockholder Class Period and the Bondholder Class Period will not be used in the calculation of such net loss. No distributions will be made to Authorized Claimants who would otherwise receive a distribution of less than \$10.00.

The Court has reserved jurisdiction to allow, disallow or adjust the claim of any Class Member on equitable grounds.

Payment pursuant to the Plan of Allocation set forth above shall be conclusive against all Authorized Claimants. No Person shall have any claim against counsel for the Stockholder Class and counsel for the Bondholder Class or any claims administrator or other Person designated by counsel for the Stockholder Class and counsel for the Bondholder Class based on distributions made substantially in accordance with the Stipulation and the settlement contained therein, the Plan of Allocation, or further orders of the Court. All Class Members who fail to complete and file a valid and timely Proof of Claim and Release form shall be barred from participating in distributions from the Settlement Fund (unless otherwise ordered by the Court), but otherwise shall be bound by all of the terms of the Stipulation, including the terms of the Judgment entered and the releases given.

Bondholder Class

The portion of the Settlement Fund allocated to the Bondholder Class shall be calculated by multiplying the Settlement Fund by a percentage equal to: (a) the total dollar value of all eligible Bondholder Class claims divided by the total dollar value of all eligible Bondholder Class claims and all eligible Stockholder Class claims; plus (b) 500 basis points. In addition, for the purpose of calculating total dollar value of the Stockholder claims, the aggregate claims for the option holders shall not exceed one percent of the total claims of the Bondholders and Common Stock Shareholders. Each Bondholder claim shall be calculated based on the Bondholder Allocation below. The Bondholder Class consists of persons who purchased the following HealthSouth debt securities:

- (a) 3.25% Convertible Debentures due 4/1/2003
- (b) 6.875% Senior Notes due 6/15/2005
- (c) 7.0% Senior Notes due 6/15/2008
- (d) 10.75% Senior Subordinated Notes due 10/1/2008
- (e) 8.5% Senior Notes due 2/1/2008
- (f) 8.375% Senior Notes due 10/1/2011
- (g) 7.375% Senior Notes due 10/1/2006
- (h) 7.625% Senior Notes due 6/1/2012

Bondholder Allocation

For HealthSouth Notes and Debentures purchased from March 31, 1998 through March 18, 2003, and

- (a) sold prior to August 27, 2002, the claim per \$1,000 par value Note/Debenture is \$0;
- (b) sold from August 27, 2002 through January 16, 2004, the claim per \$1,000 par value Note/Debenture is the difference between the purchase price per \$1,000 par value Note/Debenture (not to exceed \$1,000) less the sales price per \$1,000 Note/Debenture;
- (c) retained as of January 16, 2004, the claim per \$1,000 par value Note/Debenture is \$0.

NOTE: On January 16, 2004, HealthSouth became current with all principal and interest payments due under borrowing agreements.

Stockholder Class

The remaining portion of the Settlement Fund not allocated to the Bondholder Class shall be allocated to the Stockholder Class.

Merger Class Allocation

In addition to participating in either the Option Class Allocation or the Common Stock Allocation described below, the Merger Class will be allocated \$22.25 million from of the Stockholders’ Settlement Proceeds, allocated based on the Common Stock Allocation below, and an option allocation that provides a claim of: (a) \$0 if the option was exercised or expired prior to September 28, 1998; (b) \$0.79 per option if the option was exercised or expired on September 28, 1998; (c) \$2.67 per option if the option was exercised or expired on September 29, 1998; and (d) \$4.51 per option if the option was retained at the end of September 29, 1998. The Merger Class consists of plaintiffs who received HealthSouth common stock and/or options in the following mergers:

- (a) Horizon/CMS
- (b) The Company Doctor
- (c) National Surgery Centers

Stockholder Allocation

The remaining settlement proceeds will be allocated to the Stockholder Class only based on the Common Stock and Option Allocations below.

Allocation for The Common Stock

The allocation for the Common Stock is based on the following market adjusted price declines:

September 28, 1998:	\$1.57 per share
September 29, 1998:	\$3.76 per share
September 30, 1998:	\$3.68 per share
August 27, 2002:	\$5.09 per share
August 28, 2002:	\$0.92 per share (mitigated for the partial rebound through September 3, 2002)
Following March 18, 2003:	\$3.65 per share (March 18, 2003 closing price of \$3.91 per share less 90-day average of \$0.26 per share)

1. For shares of HealthSouth common stock that were purchased or otherwise acquired from April 24, 1997 through September 27, 1998, and
 - (a) sold prior to September 28, 1998, the claim per share is \$0;
 - (b) sold on September 28, 1998, the claim per share is \$1.57 per share;
 - (c) sold on September 29, 1998, the claim per share is \$5.33 per share;
 - (d) sold from September 30, 1998 through August 26, 2002, the claim per share is \$9.01 per share;
 - (e) sold on August 27, 2002, the claim per share is \$11.56 per share;
 - (f) sold from August 28, 2002 to March 18, 2003, the claim per share is \$12.02 per share;
 - (g) retained at the close of trading on March 18, 2003, the claim per share is \$13.85 per share.
2. For shares of HealthSouth common stock that were purchased on September 28, 1998, and
 - (a) sold on September 28, 1998, the claim per share is \$0;
 - (b) sold on September 29, 1998, the claim per share is \$3.76 per share;
 - (c) sold from September 30, 1998 through August 26, 2002, the claim per share is \$7.44 per share;
 - (d) sold on August 27, 2002, the claim per share is \$9.99 per share;
 - (e) sold from August 28, 2002 to March 18, 2003, the claim per share is \$10.45 per share;
 - (f) retained at the close of trading on March 18, 2003, the claim per share is \$12.28 per share.
3. For shares of HealthSouth common stock that were purchased on September 29, 1998, and
 - (a) sold on September 29, 1998, the claim per share is \$0;
 - (b) sold from September 30, 1998 through August 26, 2002, the claim per share is \$3.68 per share;
 - (c) sold on August 27, 2002, the claim per share is \$6.23 per share;
 - (d) sold from August 28, 2002 to March 18, 2003, the claim per share is \$6.69 per share;
 - (e) retained at the close of trading on March 18, 2003, the claim per share is \$8.52 per share.
4. For shares of HealthSouth common stock that were purchased from September 30, 1998 through October 4, 2000, and
 - (a) sold prior to August 27, 2002, the claim per share is \$0;
 - (b) sold on August 27, 2002, the claim per share is 50% of the lesser of: (i) the purchase price per share less the sales price per share; or (ii) \$5.09 per share;
 - (c) sold from August 28, 2002 to March 18, 2003, the claim per share is 50% of the lesser of: (i) the purchase price per share less the sales price per share; or (ii) \$6.01 per share;
 - (d) retained at the close of trading on March 18, 2003, the claim per share is 50% of the lesser of: (i) the purchase price per share less \$0.26 per share; or (ii) \$9.66 per share.
5. For shares of HealthSouth common stock that were purchased from October 5, 2000 through August 26, 2002, and
 - (a) sold prior to August 27, 2002, the claim per share is \$0;
 - (b) sold on August 27, 2002, the claim per share is the lesser of: (i) the purchase price per share less the sales price per share; or (ii) \$5.09 per share;
 - (c) sold from 8/28/2002 to 3/18/2003, the claim per share is the lesser of: (i) the purchase price per share less the sales price per share; or (ii) \$6.01 per share;
 - (d) retained at the close of trading on March 18, 2003, the claim per share is the lesser of: (i) the purchase price per share less \$0.26 per share; or (ii) \$9.66 per share.
6. For shares of HealthSouth common stock that were purchased on August 27, 2002, and
 - (a) sold on August 27, 2002, the claim per share is \$0;
 - (b) sold from August 28, 2002 to March 18, 2003, the claim per share is the lesser of: (i) the purchase price per share less the sales price per share; or (ii) \$0.92 per share;
 - (c) retained at the close of trading on March 18, 2003, the claim per share is the lesser of: (i) the purchase price per share less \$0.26 per share; or (ii) \$4.57 per share.

7. For shares of HealthSouth common stock that were purchased from 8/28/2002 through 3/18/2003, and
 - (a) sold prior to March 18, 2003, the claim per share is \$0 per share;
 - (b) retained at the close of trading on March 18, 2003, the claim per share is the lesser of: (i) the purchase price per share less \$0.26 per share; or (ii) \$3.65 per share.

Allocation for the Options

The settlement proceeds available to the Options Class shall be limited to an amount equal to one percent of the Settlement Fund (approximately \$4.45 million at the time of settlement).

Call Options

1. For Call Options on HealthSouth common stock that were purchased during the period April 24, 1997 through March 18, 2003, and
 - (a) owned at the end of one of the following dates: September 27, 1998, September 28, 1998, September 29, 1998, August 26, 2002, August 27, 2002 or March 18, 2003, the claim per Call Option is the difference between the price paid for the Call Option less the proceeds received upon the settlement of the Call Option contract;
 - (b) not owned at the end of one of the following dates: September 27, 1998, September 28, 1998, September 29, 1998, August 26, 2002, August 27, 2002 or March 18, 2003, the claim per Call Option is \$0.
2. For Call Options on HealthSouth common stock that were written during the period April 24, 1997 through March 18, 2003, the claim per Call Option is \$0.

Put Options

1. For Put Options on HealthSouth common stock that were written during the period April 24, 1997 through March 18, 2003, and
 - (a) owned at the end of one of the following dates: September 27, 1998, September 28, 1998, September 29, 1998, August 26, 2002, August 27, 2002 or March 18, 2003, the claim per Put Option is the difference between the amount paid upon settlement of the Put Option contract less the initial proceeds received upon the sale of the Put Option contract.
 - (b) not owned at the end of one of the following dates: September 27, 1998, September 28, 1998, September 29, 1998, August 26, 2002, August 27, 2002 or March 18, 2003, the claim per Put Option is \$0.

For Put Options on HealthSouth common stock that were purchased during the period April 24, 1997 through March 18, 2003, the claim per Put Option is \$0.

Note: In the case the option was exercised for HealthSouth common stock, the amount paid, or proceeds received, upon the settlement of the option contract equals the intrinsic value of the option using HealthSouth common stock's closing price on the date the option was exercised.

Acquired Options

Stock options on HealthSouth's common stock received in the Horizon/CMS, The Company Doctor or National Surgery Centers mergers will be entitled to receive a recovery per the stock option plan. The purchase price for these options will be the difference between HealthSouth's closing price at the time of the respective mergers (\$25.50 per share for Horizon/CMS, \$27.38 per share for The Company Doctor and \$28.13 per share for National Surgery Centers) and the exercise price of the option.