

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

In re HEALTHSOUTH CORPORATION
SECURITIES LITIGATION

This Document Relates To:
ALL ACTIONS.

In re HEALTHSOUTH CORPORATION
STOCKHOLDER LITIGATION

This Document Relates To:
ALL ACTIONS.

In re HEALTHSOUTH CORPORATION
BONDHOLDER LITIGATION

This Document Relates To:
ALL ACTIONS.

Master File No. CV-03-BE-1500-S

Consolidated Case No.
CV-03-BE-1501-S

Consolidated Case No.
CV-03-BE-1502-S

CLASS ACTION

NOTICE OF PENDENCY AND PROPOSED PARTIAL
SETTLEMENT OF CLASS ACTION

TO: ALL PERSONS ("STOCKHOLDER CLASS") WHO PURCHASED OR OTHERWISE ACQUIRED THE STOCK OR OPTIONS OF HEALTHSOUTH CORPORATION ("HEALTHSOUTH" OR THE "COMPANY"), INCLUDING HEALTHSOUTH SECURITIES RECEIVED IN EXCHANGE FOR THE STOCK OR OPTIONS OF CERTAIN OTHER COMPANIES ACQUIRED BY HEALTHSOUTH BETWEEN APRIL 24, 1997 AND MARCH 18, 2003 ("STOCKHOLDER CLASS PERIOD") AND TO ALL PERSONS ("BONDHOLDER CLASS") WHO PURCHASED OR OTHERWISE ACQUIRED HEALTHSOUTH BONDS, NOTES OR OTHER DEBT INSTRUMENTS DURING THE PERIOD BETWEEN MARCH 31, 1998 AND MARCH 18, 2003 ("BONDHOLDER CLASS PERIOD")

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS MAY BE AFFECTED BY PROCEEDINGS IN *IN RE HEALTHSOUTH STOCKHOLDER LITIGATION*, NO. CV-03-BE-1501-S ("STOCKHOLDER ACTION") AND *IN RE HEALTHSOUTH BONDHOLDER LITIGATION*, NO. CV-03-BE-1502-S ("BONDHOLDER CLASS ACTION") (TOGETHER, THE "FEDERAL ACTIONS"). PLEASE NOTE THAT IF YOU ARE A MEMBER OF EITHER OR BOTH CLASSES, YOU MAY BE ENTITLED TO SHARE IN THE PROCEEDS OF THE SETTLEMENT DESCRIBED IN THIS NOTICE. TO CLAIM YOUR SHARE OF THIS FUND YOU WILL BE REQUIRED, AT A TIME TO BE SET IN THE FUTURE BY THE COURT, TO SUBMIT A VALID PROOF OF CLAIM AND RELEASE ("PROOF OF CLAIM"). THE PROOF OF CLAIM WILL BE SENT TO YOU IN THE FUTURE. IT DOES **NOT** ACCOMPANY THIS NOTICE.

IF YOU DO NOT WISH TO BE INCLUDED IN THE CLASSES AND YOU DO NOT WISH TO PARTICIPATE IN THE PROPOSED SETTLEMENT DESCRIBED IN THIS NOTICE, YOU MAY REQUEST TO BE EXCLUDED. TO DO SO, YOU MUST SUBMIT A WRITTEN REQUEST FOR EXCLUSION THAT MUST BE RECEIVED ON OR BEFORE DECEMBER 8, 2006.

This Notice has been sent to you pursuant to Rule 23 of the Federal Rules of Civil Procedure and an Order of the United States District Court for the Northern District of Alabama, Southern Division (the "Court"). The purpose of this Notice is to inform you of the pendency and proposed partial settlement of these two class actions and of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the Settlement. This Notice is not intended to be, and should not be construed as, an expression of any opinion by the Court with respect to the truth of the allegations in the Federal Actions or the merits of the claims or defenses asserted. This Notice describes the rights you may have in connection with the Settlement and what steps you may take in relation to the Settlement and these class action litigations.

The proposed settlement creates a fund in the amount of \$445,000,000 in cash, HealthSouth common stock and warrants (the "Settlement Fund") and will include interest that accrues on the cash portion of the fund prior to distribution. Your recovery from this fund will depend on a number of variables, including the number of shares of HealthSouth common stock or options you purchased during the Stockholder Class Period or the number of HealthSouth bonds, notes or other debt instruments ("Notes") you purchased during the Bondholder Class Period and the timing of your purchases and any sales. As described more fully below, the amount of any distribution to Class Members on a per security basis will depend on future Court proceedings and it is therefore not possible to accurately estimate the amount of any such distribution at the present time. *See* Section VII. Moreover, available information concerning the trading of Notes does not permit a useful estimate to be provided concerning the number of affected Notes or the recovery per Note on these transactions. With respect to the average distribution per share of HealthSouth common stock, if it is assumed that the Bondholder Class damages are 30% or less of the total damages and depending on the number of claims submitted against the Settlement Fund, the average distribution per share of common stock of HealthSouth would be approximately \$0.82. The actual average per share distribution of HealthSouth common stock will vary based upon, among other things, the amount of the valid claims submitted by members of the Classes. Finally, this is a partial settlement and, although no assurances can be given, the claims asserted in the Federal Actions against the Non-Settling Defendants (defined below) will continue to be prosecuted and may result in substantial additional recoveries.

Lead Plaintiffs and Defendants do not agree on the average amount of damages per share that would be recoverable if the Lead Plaintiffs were to have prevailed on each claim alleged. The issues on which the parties disagree include: (1) the amount by which HealthSouth securities were allegedly artificially inflated (if at all) during the respective class periods; (2) the effect of various market forces influencing the trading price of HealthSouth securities at various times during the respective class periods; (3) the extent to which external factors, such as general market and industry conditions, influenced the trading price of HealthSouth securities at various times during the respective class periods; (4) the extent to which the various matters that Lead Plaintiffs alleged were materially false or misleading influenced (if at all) the trading price of HealthSouth securities at various times during the respective class periods; (5) the extent to which the various allegedly adverse material facts that Lead Plaintiffs alleged were omitted influenced (if at all) the trading price of HealthSouth securities at various times during the respective class periods; (6) whether the statements made or facts allegedly omitted were material, false, misleading or otherwise actionable under the securities laws; (7) whether any Individual Defendants traded on insider information; and (8) whether, even if liability could be proven, total damages would still be \$0.

Lead Plaintiffs believe that the proposed partial settlement is a good recovery and is in the best interests of the Stockholder Class and the Bondholder Class. Because of the risks associated with continuing to litigate and proceeding to trial, there was a danger that the respective Classes would not have prevailed on any of their claims, in which case the Classes would receive nothing. The amount of damages recoverable by the Classes was and is challenged by Defendants. Recoverable damages in this case are limited to losses caused by conduct actionable under applicable law and, had the Federal Actions gone to trial, Defendants would have asserted that all or most of the losses of Class Members were caused by non-actionable market, industry or general economic factors. Defendants would also assert that throughout the respective class periods the uncertainties and risks associated with the purchase of HealthSouth securities were fully and adequately disclosed. In addition, Lead Plaintiffs considered the further considerable risk that, even if they successfully obtained a judgment (after years of additional litigation and appeals), Defendants might not have been able to pay an amount significantly greater than the value of the Settlement. Lead Plaintiffs and their Counsel, in consultation with their investment banking and damages experts, considered HealthSouth's current and anticipated financial condition and also considered the extent of Defendants' applicable insurance and the likely depletion of that insurance as a result of continued litigation, and also considered the possibility that no insurance coverage may ultimately be available as a result of rescission of the policies, all of which, in their view, limited the amount that might have been recovered for the Classes after trial.

At a future date, upon further notice to Class Members, Plaintiffs' Counsel will apply to the Court for an award of attorneys' fees and litigation expenses from the Settlement Fund. No attorneys' fees or litigation expenses are being sought at this time.

For further information regarding this Settlement you may contact a representative of Stockholder Plaintiffs' Lead Counsel: Rick Nelson, Lerach Coughlin Stoa Geller Rudman & Robbins LLP, 655 W. Broadway, Suite 1900, San Diego, CA 92101, Telephone: 800/449-4900 or Bondholder Plaintiff's Lead Counsel: Jeffrey N. Leibell, Bernstein Litowitz Berger & Grossmann LLP, 1285 Avenue of the Americas, New York, NY 10019, Telephone: 212/554-1400.

I. NOTICE OF HEARING ON PROPOSED SETTLEMENT

A settlement hearing will be held on January 8, 2007, at 1:30 p.m., before the Honorable Karon Owen Bowdre, United States District Judge, at the United States Courthouse, Northern District of Alabama, Southern Division, 140 Hugo L. Black United States Courthouse, 1729 Fifth Avenue North, Birmingham, Alabama (the "Settlement Hearing"). The purpose of the Settlement Hearing will be to determine: whether the Settlement consisting of \$445,000,000 in cash and securities should be approved as fair, reasonable and adequate to the Stockholder and Bondholder Classes. The Court may adjourn or continue the Settlement Hearing without further notice to the Stockholder or Bondholder Class.

II. DEFINITIONS USED IN THIS NOTICE

1. "Additional Counsel for the Merger Subclasses" means Schatz & Nobel, P.C. and Ragsdale LLC.
2. "Authorized Claimant" means any Stockholder Class Member or Bondholder Class Member whose claim for recovery has been allowed pursuant to the terms of the Stipulation.
3. "Bondholder Action" means the actions consolidated under the caption *In re HealthSouth Corporation Bondholder Litigation*, No. CV-03-BE-1502-S.
4. "Bondholder Class" means all Persons who purchased or otherwise acquired HealthSouth bonds, notes or other debt instruments during the period between March 31, 1998 and March 18, 2003, inclusive, including all Persons who purchased or otherwise acquired debt securities of HealthSouth pursuant or traceable to the Integrated Public Offerings or in the secondary market. Excluded from the Bondholder Class are the Defendants, members of the immediate family of the Defendants, the directors, officers, subsidiaries and affiliates of HealthSouth, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest, and the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded party. Also excluded from the Bondholder Class are those Persons who timely and validly request exclusion from the Bondholder Class pursuant to this Notice.
5. "Bondholder Lead Plaintiff" means The Retirement Systems of Alabama.
6. "Bondholder Plaintiff's Lead Counsel" means Bernstein Litowitz Berger & Grossmann LLP, Max W. Berger, John P. Coffey, Jeffrey N. Leibell, 1285 Avenue of the Americas, 38th Floor, New York, NY 10019, and Cunningham, Bounds, Crowder, Brown & Breedlove, LLC, Robert T. Cunningham, Jr., John T. Crowder, Jr., 1601 Dauphin Street, Mobile, AL 36604.
6. "Class Member" or "Class Members" mean any or all of the Bondholder Class Members and the Stockholder Class Members.
7. "Defendants" means the Settling Defendants and the Non-Settling Defendants.
8. "Federal Actions" means the Stockholder Action and the Bondholder Action.
9. "Federal Plaintiffs" means the Bondholder Class and the Stockholder Class.
10. "HealthSouth" means HealthSouth Corporation and its subsidiaries, divisions, affiliates, predecessors, and successors.
11. "Individual Settling Defendants" means Anthony J. Tanner, James P. Bennett, Robert E. Thomson, Thomas W. Carman, P. Daryl Brown, Patrick A. Foster, Brandon O. Hale, Larry D. Taylor, Susan M. Jones, William W. Horton, Larry R. House, Richard F. Celeste, C. Sage Givens, George H. Strong, Larry D. Striplin, Jr., Joel C. Gordon, John S. Chamberlin, Charles W. Newhall, III, Edwin M. Crawford, Jan L. Jones, Russell Maddox and Phillip C. Watkins.
12. "Lead Plaintiffs" means, collectively, the Bondholder Lead Plaintiff and the Stockholder Lead Plaintiffs.
13. "Lead Plaintiffs' Counsel" means Bondholder Plaintiff's Lead Counsel and Stockholder Lead Plaintiffs' Counsel.
14. "Person" means an individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.
15. "Plan of Allocation" means a plan or formula of allocation of the Settlement Fund whereby the Settlement Fund shall be distributed to Authorized Claimants after payment of expenses of notice and administration of the Settlement, taxes and tax expenses, and such attorneys' fees, costs, expenses and interest as may be awarded by the Court. Any Plan of Allocation is not part of the Stipulation, and Settling Defendants and their Related Parties shall have no responsibility therefor or liability with respect thereto.
16. "Related Parties" means, with respect to each Settling Defendant, the immediate family members, heirs, executors, administrators, successors, assigns, present and former employees, officers, directors, attorneys, legal representatives, and agents of each of them, and any person or entity which is or was related to or affiliated with any Settling Defendant or in which any Settling Defendant has or had a controlling interest and the present and former parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, attorneys, assigns, and agents of each of them. The Related Parties shall also include the Settling Insurers. Notwithstanding anything in this paragraph, Related Parties shall not include any Non-Settling Defendant.

17. “Released Claims” means all claims (including “Unknown Claims” as defined below) and causes of action of every nature and description, whether known or unknown, whether arising under federal, state, common or foreign law, whether brought directly or derivatively, that Lead Plaintiffs or any member of the Bondholder Class or Stockholder Class in the Federal Actions asserted in the Complaint, or could have asserted as a result of purchases, acquisitions, sales, or exercises made during the Bondholder Class Period or the Stockholder Class Period in securities issued by HealthSouth (including, without limitation, all claims arising out of or relating to any disclosures, public filings, registration statements or other statements by HealthSouth or any Defendant in the Federal Actions), based upon or arising out of any facts, allegations or claims set forth in the Complaint. In addition, with respect to the Settling Insurers and the present and former parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, attorneys, assigns, and agents of each of them, Released Claims means all claims and causes of action of every nature and description, whether known or unknown, whether arising under federal, state, common or foreign law, whether brought directly or derivatively, that are based upon, in consequence of, arise out of or relate in any way, whether in whole or in part, to (i) the Insurance Policies (as defined in ¶ 1.21 of the Stipulation of Partial Settlement), (ii) the Coverage Litigation (as defined in ¶ 1.12 of the Stipulation of Partial Settlement), (iii) the Federal Actions, (iv) the litigation, defense, and settlement of the Coverage Litigation and the Federal Actions, and/or (v) any of the facts, circumstances, and situations underlying or alleged in the Coverage Litigation and the Federal Actions but does not include claims against the Non-Settling Insurers.

18. “Released Persons” means each and all of the Settling Defendants and each and all of their Related Parties. Released Persons also includes the insurers who issued the Insurance Policies and are contributing to the Settlement Fund. Released Persons shall not include any Non-Settling Defendant, defined as a Defendant in the Securities Action that is not a party to this Settlement, including, but not limited to, Ernst & Young, LLP, UBS AG, UBS Warburg LLC, PaineWebber, Inc., now d/b/a UBS Financial Services, Inc. (subsidiary of UBS AG), Citigroup, Inc., Smith Barney, Inc. (subsidiary of Citigroup), Salomon Smith Barney now d/b/a Citigroup Global Markets (subsidiary of Citigroup), J.P. Morgan Securities, Inc. (subsidiary of J.P. Morgan Chase & Co.), Chase Securities, Inc. now d/b/a J.P. Morgan Securities, Inc. (subsidiary of J.P. Morgan Chase & Co.), Bear Stearns & Co., Cowen & Company now d/b/a Cowen Securities Corporation, Credit Suisse First Boston Corporation, Morgan Stanley & Co., Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith, Inc. (a subsidiary of Merrill Lynch & Co., Inc.), Deutsche Bank Securities, Inc. (subsidiary of Deutsche Bank AG), Deutsche Bank Alex. Brown, Inc. (division of Deutsche Bank Securities, Inc. (subsidiary of Deutsche Bank AG)), First Union Securities now d/b/a Wachovia Securities, Inc., Scotia Capital Markets (USA), Inc. (division of Scotia Capital Inc.), Jeffries & Company, Inc., Lehman Brothers, Inc., BNY Capital Markets Inc., Fleet Securities, Inc. (wholly owned subsidiary of Fleet Boston Financial Corp.), NatCity Investments, Inc., Banc of America Securities, LLC (subsidiary of Bank of America Corp.), Nationsbank Montgomery Securities, LLC now d/b/a Banc of America Securities, LLC (subsidiary of Bank of America Corp.), Benjamin D. Lorello, William C. McGahan, Howard Capek, Richard Scrushy, William T. Owens, Weston L. Smith, Michael D. Martin, Aaron Beam, Jr., Malcolm E. McVay, Emery W. Harris, Angela Ayers, Kenneth Livesay, Cathy C. Edwards, Rebecca Kay Morgan, Virginia B. Valentine, Richard E. Botts, Will Hicks, Jason M. Brown and Catherine Fowler.

19. “Settling Defendants” means HealthSouth and the Individual Settling Defendants.

20. “Settling Insurers” means Federal Insurance Company, Executive Risk Indemnity Inc., St. Paul Mercury Insurance Company, Zurich American Insurance Co., Certain Underwriters at Lloyd’s who subscribed severally and not jointly to Policy No. 823/FD9805714, Certain Underwriters at Lloyd’s who subscribed severally and not jointly to Policy No. 823/FD9900985, Certain Underwriters at Lloyd’s who subscribed severally and not jointly to Policy No. 823/FD010065, Certain Underwriters at Lloyd’s who subscribed severally and not jointly to Policy No. 823/FD0100668, Royal Indemnity Company as successor in interest to Royal Insurance Company of America, Greenwich Insurance Company, XL Specialty Insurance Company, Travelers Indemnity Company, successor in interest to Gulf Insurance Company, Great Lakes Reinsurance (UK) PLC, Twin City Fire Insurance Company, Continental Casualty Company, Royal Indemnity Company, ACE American Insurance Company, Starr Excess Liability, AIG Europe (UK) Limited as agents for New Hampshire Insurance Company, Arch Insurance Company, Clarendon America Insurance Co. and Lumbermen’s Mutual Casualty Company, and the present and former parents, subsidiaries, divisions, affiliates, predecessors, successors, employees, officers, directors, attorneys, assigns and agents of each of them, but does not include Houston Casualty Insurance or Axis Specialty Insurance (and any other person or entity in their capacity as a successor in interest to Houston Casualty Insurance or Axis Specialty Insurance) with respect to an insurance policy or policies they issued to HealthSouth and/or the Individual Settling Defendants (“Non-Settling Insurers”).

21. “Settling Parties” means, collectively, each of the Settling Defendants and the Stockholder Lead Plaintiffs and the Bondholder Lead Plaintiff on behalf of themselves and their respective Class Members.

22. “Stockholder Action” means the actions consolidated under the caption *In re HealthSouth Corporation Stockholder Litigation*, No. CV-03-BE-1501-S.

23. “Stockholder Class” means all Persons who purchased or otherwise acquired the stock or options of HealthSouth, including HealthSouth securities received in exchange for the stock or options of certain other companies acquired by HealthSouth between April 24, 1997 and March 18, 2003, inclusive. Excluded from the Class are the Defendants, members of the immediate family of the Defendants, the directors, officers, subsidiaries and affiliates of HealthSouth, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest, and the legal

representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded party. Also excluded from the Stockholder Class are those Persons who timely and validly request exclusion from the Stockholder Class pursuant to this Notice.

24. “Stockholder Lead Plaintiffs” means New Mexico State Investment Council and the Educational Retirement Board of New Mexico and Central States SE and SW Areas Pension, with other funds, and Michigan Retirement Systems.

25. “Stockholder Plaintiffs’ Lead Counsel” means Lerach Coughlin Stoia Geller Rudman & Robbins LLP, Patrick J. Coughlin, Keith F. Park, Edward P. Dietrich, 655 West Broadway, Suite 1900, San Diego, CA 92101; and Labaton Sucharow & Rudoff LLP, Thomas A. Dubbs, Lawrence A. Sucharow, James W. Johnson, Christopher J. Keller, 100 Park Avenue, 12th Floor, New York, NY 10017.

26. “Unknown Claims” means all claims, demands, rights, liabilities, and causes of action of every nature and description which the Lead Plaintiffs or any Class Member do not know or suspect to exist in his, her or its favor at the time of the release of the Released Persons which, if known by him, her or it, might have affected his, her or its settlement with and release of the Released Persons, or might have affected his, her or its decision not to object to this Settlement. With respect to any and all Released Claims, the Settling Parties stipulate and agree that, upon the Effective Date, the Lead Plaintiffs shall expressly waive, and each of the Class Members shall be deemed to have waived, and by operation of the Judgment shall have waived, the provisions, rights and benefits of California Civil Code § 1542, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

The Lead Plaintiffs shall expressly waive and each of the Class Members shall be deemed to have waived, and by operation of the Judgment shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code § 1542. The Lead Plaintiffs and Class Members may hereafter discover facts in addition to or different from those which he, she or it now knows or believes to be true with respect to the subject matter of the Released Claims, but the Lead Plaintiffs shall expressly fully, finally and forever settle and release, and each Class Member, upon the Effective Date, shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever settled and released, any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct which is negligent, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts. The Lead Plaintiffs acknowledge, and the Class Members shall be deemed by operation of the Judgment to have acknowledged, that the foregoing waiver was separately bargained for and a key element of the settlement of which this release is a part.

III. THE LITIGATION

Currently pending before the Court is a consolidated action on behalf of all Persons who, between April 24, 1997 and March 18, 2003, purchased or otherwise acquired the stock or options of HealthSouth, including HealthSouth securities received in exchange for the stock or options of certain other companies acquired by HealthSouth; and a separate consolidated action on behalf of all Persons who purchased or otherwise acquired bonds, notes or other debt instruments issued by HealthSouth during the period between March 31, 1998 and March 18, 2003.

The Stockholder Lead Plaintiffs are New Mexico State Investment Council and the Educational Retirement Board of New Mexico (“New Mexico”) and Central States SE and SW Areas Pension, with other funds (“Central States”), and the Michigan Retirement Systems.

Lead Counsel for the Stockholder Class are Lerach Coughlin Stoia Geller Rudman & Robbins LLP, counsel for Central States, and Labaton Sucharow & Rudoff LLP, counsel for New Mexico.

The Bondholder Lead Plaintiff is Retirement Systems of Alabama (“RSA”).

Lead Counsel for the Bondholder Class are Bernstein Litowitz Berger & Grossmann LLP and Cunningham, Bounds, Crowder, Brown & Breedlove, LLC.

The operative complaints in the Litigation are the Joint Second Amended Consolidated Class Action Complaint for Violations of Federal Securities Laws [Factual Basis], filed August 2, 2004, as amended by the Corrected Amendment to Joint Second Amended Consolidated Class Action Complaint for Violations of the Federal Securities Laws [Factual Basis], filed July 24, 2006; the Amended Consolidated Class Action Complaint for Violations of the Federal Securities Laws [Legal Theories and Claims], filed by the Stockholder Class on August 2, 2004; and the Consolidated Amended Class Action Complaint for Violations of the Federal Securities Laws, Bondholder Plaintiffs’ Legal Theories and Claims, filed August 2, 2004 (together, the “Complaint”). The Complaint alleges violations of §§11, 12(a)(2) and 15 of the Securities Act of 1933 and §§10(b), 14(a), 20(a) and 20A of the Securities Exchange Act of 1934, and Rules 10b-5 and 14a-9 promulgated thereunder by the Securities and Exchange Commission (“SEC”). The Complaint names as Defendants HealthSouth, founder and former

Chief Executive Officer Richard M. Scrushy, other former high-ranking officers and directors of HealthSouth, HealthSouth's former outside accountants, Ernst & Young LLP, and the Company's investment banks and bankers.

The Complaint alleges that during the relevant period, at the direction of senior HealthSouth management, Defendants implemented a scheme to falsify HealthSouth's financial statements in order to meet or exceed Wall Street expectations.

On September 15, 2004, all non-stayed Defendants moved to dismiss the Complaint in its entirety. The Stockholder Plaintiffs and Bondholder Plaintiffs filed oppositions to the motions to dismiss in November 2004. Defendants filed reply briefs in support of their motions to dismiss on September 16, 2005. Hearings on certain of the motions were held on January 18, 2006, February 9, 2006 and June 28, 2006.

On or about February 22, 2006, with the substantial assistance of highly experienced mediators, Eric Green and John Van Winkle, with Court supervision and after several months of mediation sessions and communications, the Stockholder and Bondholder Lead Plaintiffs entered into an Amended and Restated Memorandum of Understanding, setting forth the agreement in principle to settle the Litigation against HealthSouth. On or about March 14, 2006, the Stockholder and Bondholder Lead Plaintiffs entered into a Memorandum of Understanding setting forth the agreement-in-principle to settle the Litigation against the Individual Settling Defendants.

IV. CLAIMS OF THE STOCKHOLDER LEAD PLAINTIFFS AND BONDHOLDER LEAD PLAINTIFF AND BENEFITS OF SETTLEMENT

The Stockholder Lead Plaintiffs and Bondholder Lead Plaintiff believe that the claims asserted in the Federal Actions have merit and that the evidence developed to date supports those claims. However, the Stockholder Lead Plaintiffs and the Bondholder Lead Plaintiff recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Federal Actions against Settling Defendants through trial and through appeals. The Stockholder Lead Plaintiffs and the Bondholder Lead Plaintiff also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as the Federal Actions, as well as the difficulties and delays inherent in such litigation. The Stockholder Lead Plaintiffs and Bondholder Lead Plaintiff also are mindful of the inherent difficulties of proof under and possible defenses to the securities law violations asserted in the Federal Actions. The Stockholder Lead Plaintiffs and Bondholder Lead Plaintiff believe that the Settlement set forth in the Stipulation confers substantial benefits upon the Stockholder Class and the Bondholder Class, especially in view of their evaluation of HealthSouth's ability to satisfy a judgment materially larger than the settlement amount, and of their evaluation of the reduced amount of insurance that may be available after trial. Based on their evaluation, the Stockholder Lead Plaintiffs, the Bondholder Lead Plaintiff and the respective Lead Counsel for the two classes have determined that the settlement set forth in the Stipulation is in the best interests of the Stockholder Lead Plaintiffs, the Bondholder Lead Plaintiff and the two classes.

V. SETTLING DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY

Settling Defendants expressly have denied and continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Federal Actions. Settling Defendants also continue to believe the claims asserted against them in the Complaint are without merit. Nonetheless, Settling Defendants have agreed to enter into the Settlement solely to avoid the expense, distraction, time, and uncertainty associated with continuing the Federal Actions.

The Settling Defendants have concluded that further conduct of the Federal Actions would be protracted and expensive and that it is desirable that the Federal Actions be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation. The Settling Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases such as the Federal Actions. The Settling Defendants have, therefore, determined that it is desirable and beneficial to them and in the best interests of all of HealthSouth's shareholders that the Federal Actions be settled in the manner and upon the terms and conditions set forth in the Stipulation.

VI. TERMS OF THE PROPOSED SETTLEMENT

The principal amount of the Settlement Fund shall consist of and be transferred as follows:

1. HealthSouth shall pay to the Federal Plaintiffs consideration of (i) \$200,000,000, which shall be comprised of 22,088,353 shares of common stock and 40,756,326 warrants valued as of the close of business on January 18, 2006, and (ii) consideration of \$15,000,000, which shall be comprised of 3,030,303 shares of common stock valued as of the close of business on February 17, 2006. The warrants shall have a strike price of \$8.28 and an 11-year term. From January 18, 2006 until the date or dates HealthSouth issues the common stock or warrants, the number of shares of HealthSouth common stock and the number and terms of the warrants shall be appropriately adjusted to account for any stock splits, reverse stock splits, stock consolidations, stock dividends, return of capital, extraordinary distribution, recapitalization or sale of all or substantially all of HealthSouth's assets, or any conversion or exchange of HealthSouth's outstanding shares of common stock into other shares, securities or property resulting from an amalgamation or merger. In the event that HealthSouth effects its previously announced

one-for-five reverse stock split prior to the issuance of the shares and warrants described above, then the consideration to be paid by HealthSouth shall be composed of 5,023,732 shares of common stock and 8,151,265 warrants at a strike price of \$41.40. Subject to the availability of an exemption under Section 3(a)(10) under the Securities Act of 1933, the common stock and warrants shall be freely tradable, except as to Class Members who are affiliates of HealthSouth as defined in the federal securities laws. The Company shall use its best efforts to list the warrants for trading on the same exchange as HealthSouth stock. The Federal Plaintiffs shall receive 100% of the benefit of any upside movement in the stock price, *i.e.*, there shall be no reduction in the number of shares or warrants to be issued if there is an increase in the stock price. Should HealthSouth's stock price decrease, HealthSouth shall have no obligation to issue additional shares or warrants. The common stock underlying the warrants shall become freely tradable after a registration statement for the common stock underlying the warrants has been declared effective by the SEC. HealthSouth shall make its best efforts to register the common stock underlying the warrants as soon as practicable after HealthSouth becomes eligible to file a registration statement on Form S-3. HealthSouth shall be responsible for the costs of registering that common stock. The common stock and warrants shall be delivered to Authorized Claimants promptly upon completion of claims administration and as awarded to Lead Plaintiffs' Counsel pursuant to Sections 6.1 and 6.2 of the Stipulation, subject to the oversight of the Court.

2. The Settling Defendants shall cause the Settling Insurers to pay the Federal Plaintiffs \$230,000,000 in cash on behalf of the Settling Defendants in accordance with the provisions of the Settlement Agreement and Policy Release between the Settling Insurers, HealthSouth and the Individual Settling Defendants. The Settling Insurers shall transfer the \$230,000,000 plus all earned or accrued interest, less fees, taxes, and penalties to the Escrow Agent, on or before five (5) business days after the entry of the Notice Order. If any part of the \$230,000,000 is not timely paid to the Escrow Agent, it shall accrue interest at the prevailing legal rate, which interest shall be paid by the Settling Insurers.

3. HealthSouth shall pay the Federal Plaintiffs 25% of any net recoveries obtained by or on behalf of HealthSouth against the Non-Settling Defendants in any action asserting claims arising from or relating to the facts alleged in the Complaint, including, but not limited to, *Tucker v. Scrushy, et al.*, CV-02-5212 (Circuit Court of Jefferson County, Alabama) (the "Derivative Action"), but excluding judgments entered or collected prior to March 14, 2006. This amount shall be net of all fees and expenses awarded to Derivative Plaintiffs' Counsel by the Jefferson County, Alabama Court or in arbitration, and the reasonable fees and expenses incurred by HealthSouth's counsel in any action against the Non-Settling Defendants on or after February 22, 2006, whether or not such action results in any recovery.

4. In addition to the consideration set forth above, HealthSouth has entered and the Individual Settling Defendants shall enter into a mutually agreeable joint prosecution agreement with the Federal Plaintiffs with respect to the prosecution of claims against the Non-Settling Defendants. The Individual Settling Defendants shall, subject to applicable attorney-client privileges and other applicable privileges, cooperate in good faith with all reasonable requests by the Federal Plaintiffs and HealthSouth in connection with their joint prosecution of claims against the Non-Settling Defendants, which shall include, solely by way of example, (i) production of relevant, non-privileged documents in the possession, custody or control of the Individual Settling Defendants or any of their counsel; (ii) meeting and speaking informally with, and cooperating with, Counsel for HealthSouth and the Federal Plaintiffs. In connection with the cooperation obligations set forth in this paragraph, HealthSouth and the Federal Plaintiffs shall take due account of the Individual Settling Defendants' regular employment and other business obligations, and health limitations, in requesting the Individual Settling Defendants to make personal appearances or travel; and HealthSouth shall advance to the Individual Settling Defendants all reasonable costs, including reasonable attorneys' fees and out-of-pocket travel and similar expenses, incurred by the Individual Settling Defendants in response to the requests of HealthSouth and/or the Federal Plaintiffs.

5. A portion of the settlement proceeds will be used for certain administrative expenses, including costs of printing and mailing this Notice, the cost of publishing newspaper notices, payment of any taxes assessed against the Settlement Fund and costs associated with the processing of claims submitted. In addition, as explained below, in the future and upon further notice to Class Members, Lead Plaintiffs' Counsel and Additional Counsel to the Merger Subclasses will apply for an award of attorneys' fees and reimbursement of expenses to be paid from the Settlement Fund.

6. After further notice to Class Members and an opportunity to be heard, Lead Plaintiffs' Counsel will seek approval by the Court of a Plan of Allocation that will govern the calculation of Class Members' claims against the Settlement Fund. In the future, Class Members will be sent a Proof of Claim and Release form to establish their claims against the Settlement Fund.

VII. THE RIGHTS OF CLASS MEMBERS

If you are a Member of the Stockholder Class or the Bondholder Class, you may receive the benefit of, and you will be bound by, the terms of the proposed settlement described in §VI of this Notice, upon approval of it by the Court.

If you are a Class Member, you have the following options:

1. At a future date and upon further order of the Court, you may file a Proof of Claim. At a future date, a Court approved Proof of Claim will be sent to you. If you choose this option, you will remain a Class Member, you will share in the proceeds of the proposed settlement if your claim is timely and valid, and if the proposed settlement is finally approved by the Court, and you will be bound by the Judgment and release described below.

2. If you do not wish to be included in the Stockholder Class or the Bondholder Class and you do not wish to participate in the proposed settlement described in this Notice, you may request to be excluded. To do so, you must submit a written Request for Exclusion that must be received on or before December 8, 2006. You must set forth: (a) your name, address and telephone number; (b) the number and type of HealthSouth securities purchased and the number sold during the Stockholder Class Period and the Bondholder Class Period and the dates and prices of such purchase(s), and/or sale(s); and (c) that you wish to be excluded from the Stockholder Class or the Bondholder Class. The exclusion request should be addressed as follows:

HealthSouth Corporation Securities Litigation
c/o Rust Consulting, Inc.
P.O. Box 24726
West Palm Beach, FL 33416

NO REQUEST FOR EXCLUSION WILL BE CONSIDERED VALID UNLESS ALL OF THE INFORMATION DESCRIBED ABOVE IS INCLUDED IN ANY SUCH REQUEST.

If you timely and validly request exclusion from the Stockholder Class or the Bondholder Class: (a) you will be excluded from such class, (b) you will not share in the proceeds of the Settlement described herein, (c) you will not be bound by any judgment entered in the Federal Actions, and (d) you will not be precluded, by reason of your decision to request exclusion from the Stockholder Class or Bondholder Class, from otherwise prosecuting an individual claim, if timely, against the Settling Defendants based on the matters complained of in the Federal Actions.

3. If you do not request in writing to be excluded from the Stockholder Class or the Bondholder Class as set forth above, you will be bound by any and all determinations or judgments in the Federal Actions in connection with the Settlement entered into or approved by the Court, whether favorable or unfavorable, and you shall be deemed to have, and by operation of the Judgment shall have fully released all of the Released Claims against the Released Persons, whether or not you submit a valid Proof of Claim.

4. You may object to the Settlement. However, if your objection is rejected, you will be bound by the Settlement and the Judgment just as if you had not objected.

5. You may do nothing at all. If you choose this option, you will not share in the proceeds of the Settlement, but you will be bound by any Judgment entered by the Court, and you shall be deemed to have, and by operation of the Judgment shall have, fully released all of the Released Claims against the Released Persons.

6. If you are a Stockholder Class Member or a Bondholder Class Member, you may, but are not required to, enter an appearance through counsel of your own choosing at your own expense. If you do not do so, you will be represented by Lead Plaintiffs' Counsel: Lerach Coughlin Stoia Geller Rudman & Robbins LLP, Keith F. Park, Edward P. Dietrich, 655 W. Broadway, Suite 1900, San Diego, CA 92101; Lerach Coughlin Stoia Geller Rudman & Robbins LLP, Patrick J. Coughlin, 100 Pine Street, Suite 2600, San Francisco, CA 94111; Labaton Sucharow & Rudoff LLP, Thomas A. Dubbs, Lawrence A. Sucharow, James W. Johnson, Christopher J. Keller, 100 Park Avenue, 12th Floor, New York, NY 10017; Bernstein Litowitz Berger & Grossmann LLP, Max W. Berger, John P. Coffey, Jeffrey N. Leibell, 1285 Avenue of the Americas, 38th Floor, New York, NY 10019; and Cunningham, Bounds, Crowder, Brown & Breedlove, LLC, Robert T. Cunningham, Jr., John T. Crowder, Jr., 1601 Dauphin Street, P.O. Box 66705, Mobile, AL 36660.

VIII. PLAN OF ALLOCATION

No Plan of Allocation is being presented to the Court for approval at this time. As noted above, after further notice to the Settlement Class and an opportunity to be heard, Plaintiffs' Counsel will seek approval by the Court of a Plan of Allocation that will govern the calculation of Class Members' claims against the Settlement Fund. In the future, Class Members will be sent a Proof of Claim and Release form to establish their claims against the Settlement Fund. However, Additional Counsel for the Merger Subclasses, Bondholder Plaintiff's Lead Counsel and Stockholder Plaintiffs' Lead Counsel have agreed that, regardless of the other ultimate terms of a Plan of Allocation, 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 Bondholder claims divided by the total dollar value of all Bondholder and Stockholder claims; plus (b) 500 basis points (5 percent), and the Merger Subclasses will be allocated an additional \$22.25 million from that portion of the Settlement Fund allocated to the Stockholder Class.

IX. PARTICIPATION IN THE SETTLEMENT

TO PARTICIPATE IN THE DISTRIBUTION OF THE NET SETTLEMENT FUND, YOU MUST TIMELY COMPLETE AND RETURN THE PROOF OF CLAIM AND RELEASE FORM THAT WILL BE SENT TO YOU AT A LATER DATE. The Proof of Claim and Release must be postmarked on or before a date to be set by the Court, and delivered to the Claims Administrator at the address below. Unless the Court orders otherwise, if you do not timely submit a valid Proof of Claim, you will be barred from receiving any payments from the Net Settlement Fund, but will in all other respects be bound by the provisions of the Stipulation and the Judgment.

X. DISMISSAL AND RELEASES

If the proposed settlement is approved, the Court will enter a Partial Final Judgment and Order of Dismissal with Prejudice (“Judgment”). The Judgment will dismiss the Released Claims with prejudice as to all Settling Defendants. The Judgment will provide that all Class Members shall be deemed to have released and forever discharged all Released Claims against all Released Persons and that the Released Persons shall be deemed to have released and discharged all Class Members and Plaintiffs’ Counsel from all claims arising out of the prosecution and settlement of the Federal Actions or the Released Claims.

XI. APPLICATION FOR FEES AND EXPENSES

Plaintiffs’ Counsel do not intend to apply for an award of attorneys’ fees or expenses at this time. Any application for attorneys’ fees and reimbursement of expenses will only occur after notice of that application has been given to the Class Members and an opportunity to be heard. Any such sums as awarded by the Court will be paid from the Settlement Fund.

XII. CONDITIONS FOR SETTLEMENT

The Settlement is conditioned upon the occurrence of certain events described in the Stipulation. Those events include, among other things: (1) entry of the Judgment by the Court, as provided for in the Stipulation; and (2) expiration of the time to appeal from or alter or amend the Judgment. If, for any reason, any one of the conditions described in the Stipulation is not met, the Stipulation might be terminated and, if terminated, will become null and void, and the parties to the Stipulation will be restored to their respective positions as of January 27, 2006.

XIII. THE RIGHT TO BE HEARD AT THE HEARING

Any Stockholder Class Member or Bondholder Class Member who timely and validly files a written objection to any aspect of the Settlement, and who includes with his, her or its objection a statement stating an intent to appear, may appear and be heard at the Settlement Hearing. Any such Person must submit a written notice of objection, received on or before December 8, 2006, to each of the following:

CLERK OF THE COURT
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION
140 Hugo L. Black United States Courthouse
1729 Fifth Avenue North
Birmingham, AL 34203-2000

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
KEITH F. PARK
EDWARD P. DIETRICH
655 West Broadway, Suite 1900
San Diego, CA 92101

LABATON SUCHAROW & RUDOFF LLP
THOMAS A. DUBBS
LAWRENCE A. SUCHAROW
JAMES W. JOHNSON
CHRISTOPHER J. KELLER
100 Park Avenue, 12th Floor
New York, NY 10017

Lead Counsel for Stockholder Lead Plaintiffs and Stockholder Class

BERNSTEIN LITOWITZ BERGER &
GROSSMANN LLP
MAX W. BERGER
JOHN P. COFFEY
JEFFREY N. LEIBELL
1285 Avenue of the Americas, 38th Floor
New York, NY 10019

CUNNINGHAM, BOUNDS, CROWDER
BROWN & BREEDLOVE, LLC
ROBERT T. CUNNINGHAM, JR.
JOHN T. CROWDER, JR.
1601 Dauphin Street
P.O. Box 66705
Mobile, AL 36660

Lead Counsel for Bondholder Lead Plaintiff and Bondholder Class

HEALTHSOUTH CORPORATION
One HealthSouth Parkway
Birmingham, AL 35243
Attn: John Whittington

- and -

BRADLEY, ARANT, ROSE & WHITE LLP
JULIA BOAZ COOPER
One Federal Place
1819 Fifth Avenue North
Birmingham, AL 35203

Counsel to HealthSouth Corporation

MAYNARD COOPER & GALE PC
N. LEE COOPER
PATRICK C. COOPER
JAMES L. GOYER, III
2400 AmSouth/Harbert Plaza
1901 6th Avenue North
Birmingham, AL 35203

*Counsel to P. Daryl Brown, Richard F. Celeste,
Patrick A. Foster, Brandon O. Hale, Larry R.
House, William W. Horton, Jan L. Jones, Russell
H. Maddox, Larry D. Taylor, and Phillip C.
Watkins*

CHRISTIAN & SMALL LLP
KENNETH O. SIMON
MAXWELL H. PULLIAM
Financial Center
505 North Twentieth Street, Suite 1800
Birmingham, AL 35203

Counsel to Robert E. Thompson

STARNES & ATCHISON LLP
ANTHONY C. HARLOW
100 Brookwood Place
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Birmingham, AL 35259-8512

Counsel to Edwin M. Crawford

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DON B. LONG, JR.
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Birmingham, AL 35203-2618

Counsel to James P. Bennett

ALSTON & BIRD LLP
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BETSY P. COLLINS
One Atlantic Center
1201 West Peachtree Street
Atlanta, GA 30309

*Counsel to P. Daryl Brown, Richard F. Celeste,
Patrick A. Foster, Brandon O. Hale, William W.
Horton, Jan L. Jones, Russell H. Maddox,
Larry D. Taylor, and Phillip C. Watkins*

J. MARK HART, P.C.
J. MARK HART
1400 Park Place Tower
2001 Park Place North
Birmingham, AL 35203

SIMPSON THACHER & BARTLETT LLP
MICHAEL CHEPIGA
PAUL C. GLUCKOW
425 Lexington Avenue
New York, NY 10017

*Counsel to John S. Chamberlin, C. Sage Givens,
Joel C. Gordon, Charles W. Newhall, III, Larry
D. Striplin, Jr., and George H. Strong*

BAXLEY, DILLARD, DAUPHIN,
MCKNIGHT & BARCLIFT
CHARLES DAUPHIN
2008 Third Avenue South
Birmingham, AL 35233

Counsel to Susan M. Jones Smith

LIGHTFOOT, FRANKLIN & WHITE LLC
JACKSON R. SHARMAN III
JAMES F. HUGHEY, III
The Clark Building
400 20th Street North
Birmingham, AL 35203

Counsel to Anthony J. Tanner

The notice of objection must demonstrate the objecting Persons membership in the Stockholder or Bondholder Class, including the amount of HealthSouth securities purchased and sold during the respective class period and held at the end of the respective class period, and contain a statement of the reasons for objection. Only Members of the Stockholder or Bondholder Class who have submitted written notices of objection in this manner will be entitled to be heard at the Settlement Hearing, unless the Court orders otherwise. Persons who intend to object to the Settlement and desire to present evidence at the Settlement Hearing must include in their written objections the identity of any witnesses they may call to testify and any exhibits they intend to introduce into evidence at the Settlement Hearing.

XIV. SPECIAL NOTICE TO NOMINEES

If you hold any HealthSouth securities purchased during the Stockholder Class Period or the Bondholder Class Period as nominee for a beneficial owner, then, within ten (10) days after you receive this Notice, you must either: (1) send a copy of this Notice by first class mail to all such Persons; or (2) provide a list of the names and addresses of such Persons to the Claims Administrator:

HealthSouth Corporation Securities Litigation
c/o Rust Consulting, Inc.
P.O. Box 24726
West Palm Beach, FL 33416
Telephone: (800) 598-3090

If you choose to mail the Notice yourself, you may obtain from the Claims Administrator (without cost to you) as many additional copies of these documents as you will need to complete the mailing.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for or advancement of reasonable administrative costs actually incurred or expected to be incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, upon submission of appropriate documentation to the Claims Administrator.

XV. EXAMINATION OF PAPERS

This Notice is a summary and does not describe all of the details of the Stipulation. For full details of the matters discussed in this Notice, you may review the Stipulation filed with the Court, which may be inspected during business hours, at the office of the Clerk of the Court, United States Courthouse, Northern District of Alabama, 140 Hugo L. Black United States Courthouse, 1729 Fifth Avenue North, Birmingham, Alabama or at www.HealthSouthCorporationSecuritiesLitigation.com.

If you have any questions about the settlement of the Federal Actions, you may contact the Claims Administrator at (800) 598-3090 or Lead Plaintiffs' Counsel by writing:

LERACH COUGHLIN STOIA GELLER
RUDMAN & ROBBINS LLP
KEITH F. PARK
655 W. Broadway, Suite 1900
San Diego, CA 92101

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BROWN & BREEDLOVE, LLC
ROBERT T. CUNNINGHAM, JR.
JOHN T. CROWDER, JR.
1601 Dauphin Street
P.O. Box 66705
Mobile, AL 36660

DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE.

DATED: October 2, 2006

BY ORDER OF THE COURT
UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION