

HEALTHSOUTH CORP  
Form DEF 14A  
December 02, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

**HealthSouth Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(2) Form, Schedule or Registration State No.:

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**HEALTHSOUTH CORPORATION**

**ONE HEALTHSOUTH PARKWAY**

**BIRMINGHAM, ALABAMA 35243**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Our 2005 annual meeting of stockholders will be held at One HealthSouth Parkway, Birmingham, Alabama on December 29, 2005, beginning at 11:00 a.m., Central Time. The meeting is being held for the following purposes:

- (1) To elect ten directors to serve until our next annual meeting of stockholders or until their successors shall have been duly elected and qualified;
  
- (2) To consider a stockholder proposal if properly presented at the annual meeting; and
  
- (3) To act on any other matter that may properly come before the annual meeting or any adjournment(s) or postponement(s) of the annual meeting.

All stockholders of record who own shares of our common stock at the close of business on November 28, 2005 are entitled to receive notice of and to vote at the annual meeting. A complete list of stockholders entitled to vote at the meeting will be open for examination by our stockholders, during regular business hours, for a period of ten days prior to the meeting, at the meeting place.

**WHETHER OR NOT YOU INTEND TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING FORM OF PROXY, USING THE ENCLOSED PREPAID ENVELOPE OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD. IF YOU ATTEND THE ANNUAL MEETING IN PERSON, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON. ATTENDANCE AT THE MEETING DOES NOT OF ITSELF REVOKE YOUR PROXY.**

**IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS**

In accordance with notices previously sent to stockholders, HealthSouth is delivering one annual report and proxy statement in one envelope addressed to all stockholders who share a single address unless they have notified us that they wish to opt out of the program known as householding. Householding is intended to reduce our printing and postage costs. **We will deliver a separate copy of the annual report or proxy statement promptly upon written or oral request.**

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If you are a beneficial stockholder and you choose not to have the aforementioned disclosure documents sent to a single household address as described above, you must opt-out by writing to ADP Investor Communication Services, Householding Department, 51 Mercedes Way, Edgewood, New York 11717 or by calling 1-800-542-1061 and we will cease householding all such disclosure documents within 30 days. If we do not receive instructions to remove your account(s) from this service, your account(s) will continue to be househeld until we notify you otherwise. If you own common stock in nominee name (such as through a broker), information regarding householding of disclosure documents should have been forwarded to you by your broker.

By Order of the Special Committee

of the Board of Directors

Gregory L. Doody  
Executive Vice President,  
General Counsel and Secretary

Birmingham, Alabama

December 2, 2005

This proxy statement and the accompanying form of proxy are being sent to our stockholders in connection with our solicitation of proxies for use at the 2005 annual meeting of our stockholders or at any adjournment(s) or postponement(s) of the annual meeting.

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**HEALTHSOUTH CORPORATION**

**PROXY STATEMENT**

**INTRODUCTION**

The annual meeting of stockholders will be held on December 29, 2005, beginning at 11:00 a.m., Central Time, at our principal executive offices, located at One HealthSouth Parkway, Birmingham, Alabama 35243. We encourage all of our stockholders to vote at the annual meeting, and we hope that the information contained in this document will help you decide how you wish to vote at the annual meeting. These proxy solicitation materials are being sent to our stockholders on or about December 5, 2005.

**THE ANNUAL MEETING**

**Purpose of the Annual Meeting**

The purpose of the annual meeting is to elect a board of directors to serve until our 2006 annual meeting of stockholders or until their successors are duly elected and qualified, to consider a stockholder proposal as described in this proxy statement, if properly presented at the time, and to act on any other matter that may properly come before the annual meeting of stockholders of HealthSouth Corporation for the fiscal year ending December 31, 2005.

**Proxy Solicitation**

This proxy solicitation is being made by the Special Committee of the board of directors of HealthSouth, which was established on April 4, 2003 in response to the events of March 19, 2003 and the revelation of the accounting fraud that occurred under HealthSouth's prior management. Our board of directors delegated to the Special Committee, to the fullest extent permitted by Delaware law, all authority that may be delegated to the Special Committee, and authorized the Special Committee, to the fullest extent permitted by Delaware law, to exercise all of the powers and authority of the board of directors in the management of the business and affairs of HealthSouth when the board of directors is not in session. The Special Committee currently consists of all members of the board of directors except Richard M. Scruschy, who has refused our requests to resign as a director. We anticipate that the Special Committee will be disbanded following the annual meeting.

To assist us in soliciting proxies, we have retained Innisfree M&A Incorporated, a proxy soliciting firm, and we have agreed to pay Innisfree M&A Incorporated a fee of \$15,000, and all reasonable out-of-pocket expenses incurred by it in connection with the provision of its services. In addition, our directors, officers and other employees, not specifically employed for this purpose, may also solicit proxies by personal interview, mail, telephone or other electronic transmission. They will not receive additional compensation for their efforts. We will bear the entire cost of this proxy solicitation. We will request banks, brokers, nominees, custodians and other fiduciaries, who hold shares of HealthSouth common stock in street name, to forward these proxy solicitation materials to the beneficial owners of those shares and we will reimburse them the reasonable out-of-pocket expenses they incur in doing so.

**Quorum; Voting Rights**

Our Special Committee has determined that those stockholders who are recorded in our record books as owning shares of HealthSouth common stock as of the close of business on November 28, 2005, are entitled to receive notice of and to vote at the annual meeting. As of the record date, there were 397,804,441 shares of HealthSouth common stock issued and outstanding. Our common stock is our only class of outstanding voting securities.

Before any business may be transacted at the annual meeting, a quorum must be present. A quorum will be present if a majority of the shares of HealthSouth common stock which are entitled to vote at the annual meeting are present in person or represented by proxy at the annual meeting. Broker non-votes, if any, will be counted as shares present for purposes of determining the presence of a quorum.



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Each share of common stock is entitled to one vote on any matter to properly come before the annual meeting. There are no dissenters' rights of appraisal in connection with any stockholder vote to be taken at the annual meeting.

### **Voting at the Annual Meeting; Proxies**

To vote at the annual meeting, you may attend the annual meeting and vote your shares of HealthSouth common stock in person, or you may appoint a person to act as your proxy who will vote your shares at the annual meeting in accordance with your instructions. If you wish to appoint a proxy who will vote your shares of HealthSouth common stock on your behalf at the annual meeting, you should complete, date, sign and return the form of proxy accompanying this document by using the enclosed prepaid envelope or vote on the Internet or by telephone in accordance with the instructions set forth on the proxy card. If you cast your vote in any of the ways set forth on the proxy card in accordance with the instructions, your shares of HealthSouth common stock will be voted in accordance with the voting instructions you completed on the proxy, unless you have validly revoked the proxy. If you are a beneficial owner and wish to attend the annual meeting and vote your shares in person you must request and obtain a valid proxy card from your bank, broker or other agent or nominee. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. If you vote in person at the annual meeting, you will revoke any prior proxy you may have submitted.

IF YOUR PROXY DOES NOT SPECIFY HOW YOUR SHARES ARE TO BE VOTED, YOUR SHARES OF HEALTHSOUTH COMMON STOCK WILL BE VOTED FOR THE ELECTION OF EACH NOMINEE NAMED UNDER THE SECTION OF THIS DOCUMENT CAPTIONED "ELECTION OF DIRECTORS" AND WILL BE COUNTED AS ABSTENTIONS WITH REGARDS TO THE STOCKHOLDER PROPOSAL. UNDER DELAWARE LAW, ABSTENTIONS HAVE THE SAME EFFECT AS A VOTE AGAINST THE PROPOSAL.

We do not currently anticipate that any other matters will be presented for action at the annual meeting. If any other matters are properly presented for action, the person(s) named on your proxy will vote your shares of HealthSouth common stock on these other matters in their discretion, under the discretionary authority you have granted to them in your proxy.

You may revoke your proxy at any time prior to its exercise at the annual meeting by:

- providing a signed, original notice of written revocation of your proxy dated later than the proxy you wish to revoke;
- properly completing and delivering another proxy (including by telephone or by the Internet) which is granted and dated after any other proxy previously granted by you; or
- attending the annual meeting and voting in person.

Notices of revocation should be addressed to us as follows:

**HEALTHSOUTH CORPORATION ONE HEALTHSOUTH PARKWAY BIRMINGHAM, ALABAMA 35243 ATTENTION:  
SECRETARY**

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In order to revoke your proxy, we must receive an original notice of revocation of your proxy at the address above sent by U.S. mail or overnight courier. You may not revoke your proxy by any other means. If you grant a proxy, you are not prevented from attending the annual meeting and voting in person. However, your attendance at the annual meeting will not by itself revoke a proxy that you have previously granted; you must vote in person at the annual meeting to revoke your proxy. If you have instructed your broker, nominee, custodian, or other

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fiduciary to vote your shares of HealthSouth common stock, you must contact that fiduciary and follow its directions on how to change your vote.

### **Effect of Abstentions and Broker Non-Votes**

We intend to count abstentions and broker non-votes for the purpose of determining if a quorum is present at the annual meeting. An abstention will occur at the annual meeting if your shares of HealthSouth common stock are deemed to be present at the annual meeting, either because you attend the annual meeting or because you have properly completed and returned a proxy, but you do not vote on any proposal or other matter which is required to be voted on by our stockholders at the annual meeting. A broker non-vote will occur if your shares of HealthSouth common stock are held by a broker or nominee and your shares are deemed to be present at the annual meeting but you have not instructed your broker or nominee how to vote your shares. Brokerage firms that hold shares in street name may not vote a client's shares with respect to any non-discretionary item if the client has not furnished voting instructions to the brokerage firm. You should consult your broker if you have any questions about this.

### **Required Vote To Approve Each Proposal**

#### *Election of Directors*

Election of the director nominees named in Proposal One requires the affirmative vote of a plurality of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote. Shares will be voted, if authority to do so is not withheld, for the election of the Special Committee of the board of directors' nominees named in Proposal One. Votes may be cast in favor of or withheld with respect to all of the director nominees, or any of them. Broker non-votes, if any, will not be counted as having been voted and will have no effect on the outcome of the vote on the election of directors. Stockholders may not cumulate votes in the election of directors.

#### *Approval of Stockholder Proposal*

Approval of the stockholder proposal, as set forth in Proposal Two, requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as a vote against this proposal. Broker non-votes, if any, will have no effect on the vote for this proposal.

No other matters are expected to be voted on at the annual meeting.

### **Recommendation of the Special Committee**

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Our Special Committee recommends that you vote **FOR** the election of all ten of its nominees for director. Our Special Committee makes no voting recommendation with respect to the stockholder proposal.

### **PRINCIPAL STOCKHOLDERS**

The following table sets forth information regarding the beneficial ownership of our common stock as of September 30, 2005, for (a) each person who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (b) each of our incumbent directors, (c) each of our named executive officers, and (d) all of our incumbent directors and executive officers as a group.

The percentages of shares outstanding provided in the table below are based on 397,224,001 voting shares outstanding as of September 30, 2005. Beneficial ownership is determined in accordance with rules established by the United States Securities and Exchange Commission (the SEC) and generally includes voting or investment power with respect to securities. Unless otherwise indicated, each person or entity named in the table

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has sole voting and investment power, or shares voting and investment power with his or her spouse, with respect to all shares of stock listed as owned by that person. The number of shares shown does not include the interest of certain persons in shares held by family members in their own right. Shares issuable upon the exercise of options that are exercisable within 60 days of September 30, 2005 are considered beneficially owned and outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares held by any other individual. The address of our directors and executive officers is c/o HealthSouth Corporation, One HealthSouth Parkway, Birmingham, Alabama 35243.

Name of Beneficial Owner	Shares of Common Stock	Percentage of Class
Duquesne Capital Management, L.L.C. <sup>(1)</sup>	27,042,600	6.8%
Steven R. Berrard	16,644	*
Edward A. Blechschmidt	26,851	*
Donald L. Correll	6,466	*
Yvonne M. Curl	7,962	*
Charles M. Elson	11,961	*
Gregory L. Doody <sup>(2)</sup>	81,667	*
Jay Grinney <sup>(3)</sup>	533,334	*
Jon F. Hanson <sup>(4)</sup>	106,226	*
Leo I. Higdon, Jr.	12,601	*
John Markus <sup>(5)</sup>	81,667	*
John E. Maupin, Jr.	12,082	*
Robert P. May <sup>(6)</sup>	97,096	*
Richard M. Scrushy	3,719,661	*
L. Edward Shaw, Jr.	6,466	*
Michael D. Snow <sup>(7)</sup>	210,000	*
John L. Workman <sup>(8)</sup>	100,834	*
All directors and executive officers as a group	5,520,012	1.4%

\* Less than 1%

(1) Duquesne Capital Management, L.L.C. and its affiliate, Mr. Stanley F. Druckenmiller, located at 40 West 57th Street, 25th Floor, New York, New York 10019, may be deemed to beneficially own 26,997,600 shares of our common stock and share the power to vote or direct the vote, and the power to dispose or direct the disposition of these shares. This information is based on a Schedule 13G filed by Duquesne Capital Management, L.L.C. and Mr. Stanley F. Druckenmiller with the Securities and Exchange Commission on June 30, 2005.

(2) Includes 21,667 shares issuable upon exercise of options.

(3) Includes 333,334 shares issuable upon exercise of options.

(4) Includes 50,000 shares issuable upon exercise of options and 11,000 shares held in trust over which he has investment power. Does not include 30,000 shares held by his spouse.

(5) Includes 21,667 shares issuable upon exercise of options.

(6) Includes 50,000 shares issuable upon exercise of options.

(7) Includes 35,000 shares issuable upon exercise of options.

(8) Includes 18,334 shares issuable upon exercise of options.

We know of no arrangements, the operation of which may at a subsequent date result in the change of control of HealthSouth.

### PROPOSAL ONE ELECTION OF DIRECTORS

Our Special Committee proposes that each of the ten nominees listed below be elected at the annual meeting as members of our board of directors, to serve until the annual meeting of our stockholders in 2006 or until such nominee's successor is duly elected and qualified. The affirmative vote of a majority of the shares of HealthSouth common stock present in person or represented by proxy and entitled to vote at the annual meeting



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is required for the election of each nominee. Unless otherwise instructed on the proxy, the persons designated as proxies will vote the shares represented by them FOR the election of the nominees listed below. If a nominee becomes unable or unwilling to accept the nomination or election, the persons designated as proxies will be entitled to vote for any other person designated as a substitute nominee by our Special Committee. **THE SPECIAL COMMITTEE RECOMMENDS VOTING FOR THE ELECTION OF THE TEN NOMINEES LISTED BELOW.**

**Nominees for Director**

Information relating to each of the nominees proposed by our Special Committee for election as one of our directors is set out below. We have no reason to believe that any of the following nominees will be unable to serve.

<b>Name</b>	<b>Age on 12/2/2005</b>	<b>Position</b>	<b>Date Became Director</b>
Steven R. Berrard*	51	Director; Member of Special Committee, Audit Committee, and Finance Committee (Chairman)	1/31/2004
Edward A. Blechschmidt*	53	Director; Member of Special Committee and Audit Committee (Chairman)	1/31/2004
Donald L. Correll*	55	Director; Member of Special Committee, Audit Committee, and Finance Committee	6/29/2005
Yvonne M. Curl*	50	Director; Member of Special Committee, Compensation Committee, Corporate Compliance Committee, and Settlement Committee (ad hoc)	11/18/2004
Charles M. Elson*	46	Director; Member of Special Committee,  Nominating/Corporate Governance Committee (Chairman), and Settlement Committee (ad hoc)	9/9/2004
Jay Grinney	54	Director; Member of Special Committee; President and Chief Executive Officer	5/10/2004
Jon F. Hanson*	69	Director; Chairman of the Board of Directors; Member of Special Committee, Audit Committee <sup>(1)</sup> , Finance Committee, and Nominating/Corporate Governance Committee	9/17/2002
Leo I. Higdon, Jr.*	59	Director; Member of Special Committee, Compensation Committee (Chairman), Finance Committee, and Settlement Committee (ad hoc) (Chairman)	8/17/2004
John E. Maupin, Jr.*	59	Director; Member of Special Committee, Corporate Compliance Committee (Chairman), and  Nominating/Corporate Governance Committee	8/17/2004
L. Edward Shaw, Jr.*	61	Director; Member of Special Committee, Compensation Committee, Corporate Compliance Committee, and Settlement Committee (ad hoc)	6/29/2005

\* Denotes independent director.

(1) Mr. Hanson will leave the Audit Committee immediately after the filing of our Form 10-K for the fiscal year ended December 31, 2004, which was filed the same date as this proxy statement.





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*Steven R. Berrard Managing Partner, New River Capital Partners*

Mr. Berrard is Co-Founder and Managing Partner of New River Capital Partners, a private equity fund. He co-founded and worked until 1999 as Co-Chief Executive Officer of AutoNation, Inc., which through its affiliated dealers is the largest new and used vehicle retailer in the United States. He also served as Vice Chairman of Blockbuster Entertainment Corporation prior to its acquisition by Viacom in 1994. Mr. Berrard held various finance positions in his career, including Chief Financial Officer of Blockbuster. Mr. Berrard currently serves on the board of directors of Services Acquisition Corp. International.

*Edward A. Blechschmidt*

Mr. Blechschmidt was Chairman, Chief Executive Officer and President of Gentiva Health Services, Inc., a leading provider of specialty pharmaceutical and home health care services, from March 2000 to June 2002. From March 1999 to March 2000, Mr. Blechschmidt served as Chief Executive Officer and a director of Olsten Corporation. He served as President of Olsten Corporation from October 1998 to March 1999. He also served as President and Chief Executive Officer of Siemens Nixdorf Americas and Siemens Pyramid Technology from July 1996 to October 1998. Prior to Siemens, he spent more than 20 years with Unisys Corp., including serving as its Chief Financial Officer. Mr. Blechschmidt serves as a director of Option Care, Inc., Neoforma, Inc., Lionbridge Technologies, Inc. and Columbia Laboratories, Inc.

*Donald L. Correll President and Chief Executive Officer, Pennichuck Corporation*

Since August 4, 2003, Mr. Correll has served as President and Chief Executive Officer of Pennichuck Corporation, a publicly traded holding company who, through its subsidiaries, provides public water supply services, certain water related services, and certain real estate activities, including property development and management. From 1991 to 2001, Mr. Correll served as Chairman, President and Chief Executive Officer of United Water Resources, a water and wastewater utility company. Prior to 1991, Mr. Correll spent nearly 15 years with United Water, including serving as its Chief Financial Officer. From 2001 to 2003, Mr. Correll served as an independent advisor to water service and investment firms on issues relating to marketing, acquisitions and investments in the water services sector. Mr. Correll also serves as a director of Interchange Financial Services Corporation and as a Commissioner of the New Jersey Water Supply Authority.

*Yvonne M. Curl*

Ms. Curl is a former Vice President and Chief Marketing Officer of Avaya, Inc., which position she held from October 2000 through April 2004. From 1976 to 2000, Ms. Curl served in a number of middle and senior management positions at Xerox Corporation. Ms. Curl currently serves as a director of Nationwide Mutual Insurance Company and Charming Shoppes, Inc.

*Charles M. Elson Director, John L. Weinberg Center for Corporate Governance, University of Delaware*

Mr. Elson holds the Edgar S. Woolard, Jr., Chair in Corporate Governance and is the Director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. Mr. Elson has served on the National Association of Corporate Directors' Commissions on Director

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Compensation, Executive Compensation and the Role of the Compensation Committee, Director Professionalism, CEO Succession, Audit Committees, Strategic Planning, and Director Evaluation, was a member of its Best Practices Council on Coping with Fraud and Other Illegal Activity, and presently serves on that organization's Advisory Council. In addition, Mr. Elson serves as Vice Chairman of the American Bar Association's Committee on Corporate Governance and is a member of the American Bar Association's Committee on Corporate Laws. Mr. Elson serves as a director of Alderwoods Group, Inc., and AutoZone, Inc.

*Jay Grinney President and Chief Executive Officer, HealthSouth Corporation*

Mr. Grinney was named our President and Chief Executive Officer on May 10, 2004. From June 1990 to May 2004, Mr. Grinney served in a number of middle and senior management positions with HCA or its

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predecessor companies, in particular, serving as President of HCA's Eastern Group from May 1996 to May 2004, President of the Greater Houston Division from October 1993 to April 1996 and as Chief Operating Officer of the Houston Region from November 1992 to September 1993. Before joining HCA, Mr. Grinney held several executive positions during a nine year career at the Methodist Hospital System in Houston, Texas.

*Jon F. Hanson Chairman and Founder, The Hampshire Companies*

Mr. Hanson is the Chairman and founder of The Hampshire Companies and has over 46 years of experience in the real estate industry. Mr. Hanson was named non-executive Chairman of the Board of HealthSouth, effective October 1, 2005. Since 1994, Mr. Hanson has served as Chairman of the National Football Foundation and College Hall of Fame, Inc. Since 1991, Mr. Hanson has served as a director of Prudential Financial Corp., and he has also served as a director of the Hackensack University Medical Center for the past 18 years. Mr. Hanson also currently serves as a director of Pascack Community Bank and Yankee Global Enterprises.

*Leo I. Higdon, Jr. President, College of Charleston*

On October 1, 2001, Mr. Higdon became the 20<sup>th</sup> President of the College of Charleston. Between 1997 and 2001, Mr. Higdon served as President of Babson College in Wellesley, Massachusetts, a leading school of entrepreneurship. He also served as Dean of the Darden Graduate School of Business Administration at the University of Virginia. His financial experience includes a 20-year tenure at Salomon Brothers, where he became Vice Chairman and member of the executive committee, managing the Global Investment Banking Division. Mr. Higdon serves as a director of Chemtura Corporation, Eaton Vance Corp., and Newmont Mining.

*John E. Maupin, Jr. President and Chief Executive Officer, Meharry Medical College*

Dr. Maupin is President and Chief Executive Officer of Meharry Medical College, a position he has held since 1994. Dr. Maupin came to Meharry from the Morehouse School of Medicine, where he served as Executive Vice President and Chief Operating Officer from 1989 to 1994. Before joining Morehouse, he was Chief Executive Officer of Southside Healthcare, Inc., from 1987 to 1989 and prior to that Deputy Commissioner of Health of the Baltimore City Health Department from 1981 to 1987. Dr. Maupin serves as a director of Pinnacle Financial Partners, Inc., LifePoint Hospitals, and VALIC Companies I and II of American International Group, Inc.

*L. Edward Shaw, Jr. Of Counsel, Gibson Dunn & Crutcher LLP*

Since September 1, 2004, Mr. Shaw has been Of Counsel with the New York office of Gibson Dunn & Crutcher LLP, a law firm based in Los Angeles with national and international offices. From January 1, 2004 to August 31, 2004, Mr. Shaw practiced law as a sole practitioner in the areas of corporate governance and securities regulation and compliance. From May 1999 to December 31, 2003, Mr. Shaw served as General Counsel of Aetna, Inc., one of the leading providers of health and group insurance benefits in the United States. Mr. Shaw also served as an Executive Vice President and member of the office of the Chairman of Aetna from September 2000 to December 31, 2004. Mr. Shaw also serves as a director of Mine Safety Appliances Co. and Covenant House, the nation's largest privately-funded provider of crisis care to children.

**Other Director Not Nominated for Election**

Richard M. Scrusy currently sits on our board of directors. Mr. Scrusy's employment with us was terminated on March 19, 2003, but he refused our requests that he resign as a director. Mr. Scrusy has not been nominated to continue serving as a member of our board of directors. Certain information relating to Mr. Scrusy is presented below.

<u>Name</u>	<u>Age on 12/2/2005</u>	<u>Position</u>	<u>Date Became Director</u>
Richard M. Scrusy	53	Director	2/22/1984

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Mr. Scrusby was the principal founder of HealthSouth and acted as Chairman of the Board and Chief Executive Officer of the company from 1984 until March 19, 2003 (except for a period from late August 2002 until early January 2003, when he served as Chairman of the Board only). On March 19, 2003, our board of directors placed Mr. Scrusby on administrative leave following our discovery of a broad governmental investigation into HealthSouth's financial reporting and related practices conducted during his management of the company. Shortly thereafter, the outside directors on our board unanimously declared Mr. Scrusby's employment agreement null and void and removed him from his positions as Chairman of the Board and Chief Executive Officer, effective March 19, 2003.

## **MANAGEMENT MATTERS**

There are no arrangements or understandings known to us between any of the individuals listed above and any other person pursuant to which a director was or is to be elected as a director or nominee, other than any arrangements or understandings with directors or officers of HealthSouth acting solely in their capacities as such. There are no family relationships between any directors or executive officers of HealthSouth. Other than as described in the section entitled "Involvement in Certain Legal Proceedings" below, none of our directors, nominees or executive officers is a party to any material proceedings adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

The board of directors did not meet during the fiscal year ended December 31, 2004. However, the Special Committee of the board of directors met 21 times during the fiscal year ended December 31, 2004.

The Special Committee has determined that each of Steven R. Berrard, Edward A. Blechschmidt, Donald L. Correll, Yvonne M. Curl, Charles M. Elson, Jon F. Hanson, Leo I. Higdon, Jr., John E. Maupin, Jr. and L. Edward Shaw, Jr. is an independent director based on our Corporate Governance Guidelines. Each of these directors also satisfies the definition of independence contained in Rule 303.01 of the listing standards for the New York Stock Exchange and Rule 4200(a)(14) of the listing standards of the National Association of Securities Dealers.

## **Committees of the Board of Directors**

Our board of directors has the following five standing committees: Audit Committee, Compensation Committee, Corporate Compliance Committee, Finance Committee, and Nominating/Corporate Governance Committee. Each of our board committees is governed by a charter, a current copy of which is available on our corporate website at [www.healthsouth.com](http://www.healthsouth.com) under the heading "About HealthSouth/Corporate Governance & Ethics." Board committee charters are also available in print to stockholders upon request, addressed to HealthSouth Corporation, One HealthSouth Parkway, Birmingham, Alabama 35243, Attention: Secretary.

In addition, as previously mentioned, our board of directors created the Special Committee and delegated to the Special Committee, to the fullest extent permitted by Delaware law, all authority that may be delegated to the Special Committee, and authorized the Special Committee, to the fullest extent permitted by Delaware law, to exercise all of the powers and authority of the board of directors in the management of the business and affairs of HealthSouth when the board of directors is not in session. The Special Committee currently consists of all members of the board of directors except Richard M. Scrusby, who has refused our requests to resign as a director. We anticipate that the Special Committee will be disbanded following the annual meeting.

*Audit Committee*

The Audit Committee's purpose is to assist the board of directors in fulfilling its responsibilities with respect to the oversight of the accounting and financial reporting practices of HealthSouth, including oversight of the integrity of our financial statements and compliance with legal and regulatory requirements, the qualifications

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and independence of our independent registered public accounting firm, and the performance of our internal audit function and our independent registered public accounting firm. The Audit Committee is also charged with preparation of an audit committee report, retention and termination of our independent registered public accounting firm, annual review of the report of our independent registered public accounting firm, and discussion with our independent registered public accounting firm of the audited and quarterly financial statements of HealthSouth and any audit problems or difficulties and management's response thereto.

The Audit Committee consists of Steven R. Berrard, Edward A. Blechschmidt (Chairman), Donald L. Correll, and Jon F. Hanson, each of whom the Special Committee has determined is independent (in accordance with the definitions of independence contained in Rule 303.01 of the listing standards for the New York Stock Exchange, Rule 4200(a)(14) of the listing standards for the National Association of Securities Dealers, and our Corporate Governance Guidelines). In addition, the board of directors has determined that each of Edward A. Blechschmidt, Steven R. Berrard, and Donald L. Correll is an audit committee financial expert as defined by SEC rules. The formal report of our Audit Committee can be found on page 33 of this proxy statement. The Audit Committee met 13 times during the fiscal year ended December 31, 2004. A copy of the audit committee charter is attached hereto as *Appendix A*. Mr. Hanson will leave the Audit Committee immediately after the filing of our Form 10-K for the fiscal year ended December 31, 2004, which was filed the same date as this proxy statement.

### *Compensation Committee*

The Compensation Committee's purpose is to oversee the development of our compensation objectives and policies and to review and recommend to the board of directors the individual compensation of our executive officers in order to attract and retain high-quality personnel to help ensure our long-term success and the creation of long-term stockholder value.

The primary objectives and direct responsibilities of the Compensation Committee are to:

review and approve the objectives of our compensation programs and policies, including our benefit plans;

enable the board of directors to discharge its responsibilities relating to the compensation of our executive officers;

make recommendations with respect to incentive compensation plans and equity-based plans;

review and approve corporate goals and objectives relevant to the compensation of the chief executive officer and other executive officers;

evaluate the performance of the chief executive officer in light of those goals and objectives;

determine and approve the base compensation level of and incentive compensation for the chief executive officer based on this evaluation;

approve base compensation and incentive compensation levels for other executive officers for ratification by the board of directors;

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recommend to the board of directors all equity-based awards;

act as (or designate) an administrator for such plans as may be required; and

review and recommend to the board of directors fees and retainers for members of the board of directors and members and chairpersons of committees of the board of directors.

The Compensation Committee consists of Yvonne M. Curl, Leo I. Higdon, Jr. (Chairman), and L. Edward Shaw, Jr. The formal report of our Compensation Committee can be found on page 29 of this proxy statement. The Compensation Committee met eight times during the fiscal year ended December 31, 2004.



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### *Corporate Compliance Committee*

The Corporate Compliance Committee's function is to assist our board of directors in fulfilling its fiduciary responsibilities relating to our regulatory compliance activities. The committee is primarily responsible for overseeing, monitoring, and evaluating HealthSouth's compliance with all of its regulatory obligations other than tax and securities law related obligations.

The primary objectives and responsibilities of the Corporate Compliance Committee are to:

ensure the establishment and maintenance of a regulatory compliance program that constitutes an effective program to prevent and detect violations of law as defined by guidelines promulgated by the United States Sentencing Commission;

appoint and oversee the activities of a chief compliance officer with responsibility for developing and implementing our regulatory compliance program;

monitor the company's compliance with any Corporate Integrity Agreement (CIA) or similar undertaking, with the Office of Inspector General, U.S. Department of Health and Human Services or any other government agency;

review and approve an annual regulatory compliance program and audit plan developed by the chief compliance officer;

perform, or have performed, an annual evaluation of the performance of the chief compliance officer and the compliance office;

review periodic reports from the chief compliance officer, including an annual regulatory compliance report summarizing compliance-related activities undertaken by HealthSouth during the year and the results of all regulatory compliance audits conducted during the year; and

recommend such actions or measures or adopted by the board that it deems appropriate.

The Corporate Compliance Committee consists of Yvonne M. Curl, John E. Maupin, Jr. (Chairman), and L. Edward Shaw, Jr. The Corporate Compliance Committee met six times during the fiscal year ended December 31, 2004.

### *Finance Committee*

The Finance Committee is responsible for assisting our board of directors in the oversight of the use and development of our financial resources, including our financial structure, investment policies and objectives, long-term financial strategy and financial needs, and other matters of a financial and investment nature.

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The primary objectives and direct responsibilities of the Finance Committee are to review, evaluate, and make recommendations to the board of directors regarding HealthSouth's:

capital structure and proposed changes thereto, including significant new issuances, purchases, or redemptions of our securities;

plans for allocation and disbursement of capital expenditures;

credit rating, activities with credit rating agencies, and key financial ratios;

long-term financial strategy and financial needs;

unusual or significant commitments or contingent liabilities; and

plans to manage insurance and asset risk.

The Finance Committee consists of Steven R. Berrard (Chairman), Donald L. Correll, Jon F. Hanson, and Leo I. Higdon, Jr. The Finance Committee met 12 times during the fiscal year ended December 31, 2004.

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### *Nominating/Corporate Governance Committee*

The purpose of the Nominating/Corporate Governance Committee is to assist our board of directors in fulfilling its duties and responsibilities to us and our stockholders, particularly with respect to the manner in which it conducts its stewardship of the company.

The primary objectives and direct responsibilities of the Nominating/Corporate Governance Committee are to:

create a process that will allow the committee to identify and evaluate individuals qualified to become members of the board of directors, consistent with the criteria approved by the board of directors;

recommend the nominees for membership on the board of directors to be submitted by the board of directors to the stockholders at each annual meeting of stockholders, taking into account the criteria for membership on the board of directors set forth in the Corporate Governance Guidelines;

recommend to the board of directors candidates to fill vacancies and newly-created positions on the board resulting from any increase in the authorized number of directors in the manner provided in our bylaws;

develop, recommend to the board of directors, and periodically review our Corporate Governance Guidelines;

oversee the evaluation of the board of directors and the management; and

perform an annual performance evaluation of the Nominating/Corporate Governance Committee and the members of the committee.

The Nominating/Corporate Governance Committee consists of Charles M. Elson (Chairman), Jon F. Hanson, and John E. Maupin, Jr. The Nominating/Corporate Committee met 11 times during the fiscal year ended December 31, 2004.

## **Code of Ethics**

We have adopted Standards of Business Conduct (our code of ethics ) that applies to all employees, directors and officers, including our principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. We have posted a copy of our code of ethics on our website at [www.healthsouth.com](http://www.healthsouth.com) under the heading About HealthSouth/Corporate Governance & Ethics. We will provide to any person without charge, upon request, a copy of our code of ethics. Requests for a copy may be made in writing to Corporate Compliance Office, HealthSouth Corporation, P.O. Box 380243, Birmingham, Alabama 35238.

## **Corporate Governance**

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Since March 2003, we have revised our Corporate Governance Guidelines and charters for all five of the standing committees of our board of directors. Our revised guidelines and charters meet or exceed the requirements of the Sarbanes-Oxley Act of 2002. Our revised guidelines and charters require three-quarters of the members of our board of directors to meet the criteria for independence set forth in our new Corporate Governance Guidelines. Our Corporate Governance Guidelines also create a new position of non-executive chairman of the board, limit the number of terms any director may serve, and impose limitations on the number of outside directorships our directors may hold. Additionally, non-management directors meet regularly, with the non-executive chairman of the board presiding at those meetings, and all transactions with related parties must receive the prior approval of our board of directors.

Our revised Corporate Governance Guidelines are available at our website, [www.healthsouth.com](http://www.healthsouth.com), under the heading About HealthSouth/Corporate Governance & Ethics. We will provide to any person, without charge, upon request, a copy of our Corporate Governance Guidelines. Requests for a copy may be made in writing to the following address: Secretary, HealthSouth Corporation, One HealthSouth Parkway, Birmingham, Alabama 35243.

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Our Corporate Governance Guidelines provide, among other things, that each member of the board of directors shall:

dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties;

comply with the duties and responsibilities set forth in the Corporate Governance Guidelines and in our bylaws;

comply with all duties of care, loyalty, and confidentiality applicable to directors of publicly traded Delaware corporations; and

adhere to our Standards of Business Conduct, including, the policies on conflicts of interest.

In accordance with the Sarbanes-Oxley Act of 2002, the Audit Committee has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding accounting or auditing matters. We have established a confidential email and hotline for employees to report violations of our Standards of Business Conduct or other company policy and to report any ethical concerns.

## **Communications to the Board of Directors, the Committees and the Non-Management Directors**

Stockholders and other parties interested in communicating directly to the board of directors, any committee, or any non-management directors may do so by writing to the address listed below. All communications will be forwarded directly to the addressee.

**HEALTHSOUTH CORPORATION BOARD OF DIRECTORS P.O. BOX 382827 BIRMINGHAM, ALABAMA 35238**

**ATTENTION: [Addressee\*]**

\*The Addressee description will allow HealthSouth to direct the communication to the intended recipient.

## **Board Attendance at the Annual Meeting**

We have a policy that directors are expected to attend the annual meeting of stockholders. The members of the board of directors generally hold a meeting immediately following the annual meeting of stockholders. Thus, the annual meeting of stockholders and the board meeting are held at the same location to further facilitate and encourage the directors to attend the annual meeting of stockholders. We did not hold an annual meeting in 2004, and we have not held an annual meeting since 2002.

**The Director Nomination Process**

The Nominating/Corporate Governance Committee of the board of directors has developed a policy regarding director nominations (the Nominations Policy ). The Nominations Policy describes the process by which candidates for possible inclusion in HealthSouth's slate of director nominees are selected.

*Criteria for Board Members.* The committee considers the following factors in evaluating the suitability of candidates and nominees to our board of directors:

**Integrity:** Candidates should demonstrate high ethical standards and integrity in their personal and professional dealings.

**Accountability:** Candidates should be willing to be accountable for their decisions as directors.

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**Judgment:** Candidates should possess the ability to provide wise and thoughtful counsel on a broad range of issues.

**Responsibility:** Candidates should interact with each other in a manner which encourages responsible, open, challenging and inspired discussion. Directors must be able to comply with all duties of care, loyalty and confidentiality applicable to directors of publicly traded Delaware corporations.

**High Performance Standards:** Candidates should have a history of achievements which reflects high standards for themselves and others.

**Commitment and Enthusiasm:** Candidates should be committed to, and enthusiastic about, their performance for the company as directors, both in absolute terms and relative to their peers. Directors should be free from conflicts of interest and be able to devote sufficient time to satisfy their board responsibilities.

**Financial Literacy:** Candidates should be able to read and understand fundamental financial statements and understand the use of financial ratios and information in evaluating the financial performance of the company.

**Courage:** Candidates should possess the courage to express views openly, even in the face of opposition.

*Internal Process for Identifying Candidates.* The Nominating/Corporate Governance Committee has two primary methods for identifying director nominees (other than those proposed by stockholders, as discussed below). First, on a periodic basis, the committee solicits ideas for possible candidates from members of the board of directors, senior level executives, and individuals personally known to the members of the board. Second, the committee may from time to time use its authority under its charter to retain, at HealthSouth's expense, one or more search firms to identify candidates (and to approve such firms' fees and other retention terms).

*Proposals for Director Nominees by Stockholders.* The Nominating/Corporate Governance Committee will consider written proposals from stockholders for nominees for director. In considering candidates submitted by stockholders, the Nominating/Corporate Governance Committee will take into consideration the needs of the board of directors and the qualifications of the candidate. Any such nominations should be submitted to the Nominating/Corporate Governance Committee, c/o the Secretary of the company, and should include the following: (a) the name of the stockholder and evidence of the person's ownership of the HealthSouth common stock, including the number of shares owned and the length of time of ownership; and (b) the name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of HealthSouth and the person's consent to be named as a director if selected by the Nominating/Corporate Governance Committee and nominated by the board of directors. The written proposal should be submitted in the time frame described in the Section III.4 of the bylaws which provides that any stockholder wishing to nominate a candidate for director must submit such nomination in writing to the Secretary of the company so that such nomination is received no later than the thirtieth day preceding the date set for such annual meeting or special meeting. HealthSouth did not receive a stockholder proposal to nominate a director for this year's annual meeting.

*Evaluation of Candidates.* The Nominating/Corporate Governance Committee will consider all candidates identified through the processes described above, and will evaluate each of them, including incumbents, based on the same criteria. If, after the committee's initial evaluation, a candidate meets the criteria for membership, the chair of the Nominating/Corporate Governance Committee will interview the candidate and communicate the chair's evaluation to the other members of the committee, the chairman of the board and the president and chief executive officer. Later reviews will be conducted by other members of the committee and senior management. Ultimately, background and reference checks will be conducted and the committee will meet to finalize its list of recommended candidates for the board's consideration. The candidates recommended for the board's consideration will be those individuals that will create a board that is, as a whole, strong in its collective knowledge of, and diverse in skills and experience with respect to, accounting and finance, management and leadership, vision and strategy, business operations, business judgment, crisis management, risk assessment, industry knowledge, corporate governance and global markets.





**Table of Contents****Compensation of Directors**

Our directors who are not employees receive an annual cash retainer of \$45,000 plus \$2,000 per board of directors or Special Committee meeting attended in person, \$1,000 per meeting attended by telephone, and \$1,000 per committee meeting attended. The chairman of the board receives an additional \$100,000 per year to compensate for the enhanced responsibilities and time commitment associated with that position. The chair of the Audit Committee receives an additional \$25,000 per year, the chair of the Compensation Committee receives an additional \$15,000 per year, and the chairs of the Corporate Compliance Committee, the Finance Committee, and the Nominating/Corporate Governance Committee each receive an additional \$10,000 per year.

The sole employee director receives no additional cash compensation for his service on our board of directors or any board committee. All directors are reimbursed for their expenses in connection with their service on the board and its committees.

Pursuant to the 2004 Director Incentive Plan, as amended, each non-employee member of the Special Committee of the board of directors will receive on the date of initial election or appointment a grant of restricted stock valued on the date of grant at \$50,000 if granted during the first quarter, \$37,500 if granted during the second quarter, \$25,000 if granted during the third quarter, and no grant in the fourth quarter. In addition, each non-employee member of the Special Committee of the board of directors will be granted shares of restricted stock at the time annual equity awards are granted to key employees of the company. Such grants will be available to eligible directors serving on the date of grant and will be valued at \$50,000 on the date of grant.

All shares of restricted stock granted under our 2004 Director Incentive Plan are subject to annual vesting over a three year period. Any unvested shares are forfeited if the holder ceases to be a member of the board of directors, except in the case of death, disability, or retirement and the holder held such restricted stock for a period of at least 12 months.

Other than as provided above, there were no other arrangements pursuant to which any director was compensated during the year ended December 31, 2004 for service as a director.

In 2004, current non-employee directors were granted the following number of shares of restricted stock:

<u>Name</u>	<u>Number of Shares of Restricted Stock</u>
Steven R. Berrard	9,941
Edward A. Blechschmidt	9,941
Charles M. Elson	4,717
Jon F. Hanson	8,432
Leo I. Higdon, Jr.	4,717
Lee S. Hillman	8,432
John E. Maupin, Jr.	4,717

**Involvement in Certain Legal Proceedings**

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On March 19, 2003, the SEC filed a lawsuit in the United States District Court for the Northern District of Alabama against HealthSouth and our then-Chairman and Chief Executive Officer, Richard M. Scrushy. The lawsuit alleges that HealthSouth overstated earnings by at least \$1.4 billion since 1999, and that this overstatement occurred because Mr. Scrushy insisted that HealthSouth meet or exceed earnings expectations established by Wall Street analysts. Specifically, the lawsuit alleges that HealthSouth and Mr. Scrushy violated and/or aided and abetted violations of the antifraud, reporting, books-and-records and internal control provisions of the federal securities laws. On April 3, 2003, the SEC filed an amended complaint adding additional charges against Mr. Scrushy. On May 7, 2003, this litigation was stayed pending the resolution of any criminal charges against Mr. Scrushy in connection with the alleged violations of federal securities laws. On June 6, 2005, the SEC approved a settlement with HealthSouth relating to this action. Mr. Scrushy was subsequently acquitted of

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the criminal charges brought in the Northern District of Alabama and, on September 7, 2005, the SEC filed a second amended complaint against Mr. Scrushy. That civil action is still pending against Mr. Scrushy.

On October 26, 2005, the U.S. District Court, Middle District of Alabama released an indictment naming Richard M. Scrushy along with a former governor of Alabama and two members of the governor's administration on charges involving conspiracy, racketeering, and bribery. Mr. Scrushy is accused of making disguised payments of \$500,000 in 1999 and 2000 to the then acting governor through a third-party foundation in exchange for an appointment on Alabama's Certificate of Need Review Board. Mr. Scrushy served on the Certificate of Need Review Board from 1999 to 2001 when he was replaced by another HealthSouth executive. The charges against Mr. Scrushy are still pending, and, if convicted on all counts, Mr. Scrushy could face a total sentence of 40 years.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors, and persons who beneficially own more than 10% of a registered class of our equity securities, to file with the SEC reports of ownership and changes in ownership of HealthSouth equity securities. Executive officers, directors, and beneficial owners of greater than 10% of a registered class of our equity securities are required by SEC regulations to provide us with copies of all Section 16(a) forms that they file. Based solely on review of the copies of such forms furnished to us and written representations from our executive officers and directors, we believe that for the period from January 1, 2004, through December 31, 2004, all of our executive officers, directors and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them, except for the following:

Bryan P. Marsal and Guy Sansone, both former interim officers of the company, failed to provide an initial report of ownership on Form 3 at the time they were appointed executive officers of HealthSouth. To our knowledge, neither Mr. Marsal nor Mr. Sansone has filed a Form 3 with the SEC regarding ownership of HealthSouth securities.

In November 1999 and April 2000, Joel C. Gordon, our former Chairman of the Board, gifted a total of 10,663 shares of HealthSouth common stock to family members but did not report those gifts on Form 4 or Form 5. On January 22, 2004, Mr. Gordon filed a Form 4 with the SEC that contained a revised list of his beneficial ownership reflecting the prior gifts.

On August 20, 2004, Leo I. Higdon, Jr. filed a Form 4 with the SEC relating to an acquisition of HealthSouth common stock that occurred on August 17, 2004. The form was filed one day late due to technical error.

On June 28, 2004, Michael D. Snow, our Executive Vice President and Chief Operating Officer, filed an application for access codes to file on Edgar. This application was rejected on July 2, 2004, due to a technical error. Mr. Snow re-filed the application and received his Edgar access codes. He filed his Form 4 on July 7, 2004, but as a consequence of the delay relating to the access code application, the form was filed late.

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**PROPOSAL TWO STOCKHOLDER PROPOSAL RELATING TO THE CHAIRMAN OF THE BOARD POSITION**

James Potkul, 3633 Hill Road, 2ND Floor, Parsippany, NJ 07054, the beneficial owner of 2,000 shares of HealthSouth common stock, has advised HealthSouth that he intends to present the following resolution at the annual meeting. In accordance with the applicable proxy statement regulations, the proposed resolution and Mr. Potkul's supporting statement, for which the Special Committee and HealthSouth accept no responsibility, are set forth below. Approval of this proposal would require the affirmative vote of a majority of HealthSouth's shares present at the annual meeting and entitled to vote.

**Proposed Resolution**

Resolved, that the shareholders of HealthSouth Corporation (the Company) recommend the AMENDMENT OF THE COMPANY'S BYLAWS TO REQUIRE THAT THE BOARD'S CHAIRPERSON BE AN INDEPENDENT DIRECTOR.

For the purposes of this proposal, the stockholders further recommend that the term Independent Director means a director who: i) has not been employed by the company in an executive capacity within the last 5 years; ii) is not, and is not affiliated with a company that is, an advisor or consultant to the company; iii) is not affiliated with a significant customer or supplier of the company; iv) has no personal services contract(s) with the company or its senior management; v) is not affiliated with a not-for-profit entity that receives significant contributions from the company; vi) within the last 5 years, has not had any business relationship with the company (other than service as a director) for which the Company has been required to make disclosures under regulation S-K of the Securities and Exchange Commission; vii) is not employed by a public company at which an executive officer of the company serves as a director; viii) has not had a relationship described in i) through vii) above with any affiliate of the company; and ix) is not a member of the immediate family of any person described in i) through viii) above.

**Mr. Potkul's Statement in Support of this Proposal**

How important is the Board of Directors? I believe that the Board and most particularly its Chairperson is of paramount importance. This is why I am sponsoring this proposal which urges the Board to amend the Company's bylaws so that the Board's leader will be a person who is independent of the Company and its officers. Through this proposal, I seek to promote strong, objective leadership on the Board.

A Board of Directors must formulate corporate policies and monitor management's implementations of those policies. The Chairperson is responsible for leading the Board in these tasks, and ensuring that directors are given the information necessary to perform their duties. In my view, when the Board's Chairperson is also an officer, employee or otherwise closely related to the Company's management, it is difficult to objectively perform this monitoring and evaluation function. I believe that an independent Chairperson would best ensure that the interests of the shareholders are best served, rather than the interests of management.

I urge you to vote FOR this proposal.

**Statement of the Special Committee of the Board Of Directors**

The Special Committee of our board of directors has considered the proposal set forth above relating to amending the company's bylaws to require that the chairman of the board be an independent director as well as the terms of what would constitute an independent director. The Special Committee has determined not to oppose the proposal and to make no voting recommendation to stockholders. The proposal, which is advisory in nature, would constitute a recommendation to the board if approved by stockholders.

HealthSouth is committed to strong principles of independent corporate governance. Nine members of our current board of directors, including HealthSouth's current chairman of the board, qualify as independent

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directors under our Corporate Governance Guidelines. These Corporate Governance Guidelines, which were adopted in 2003, create a new position of non-executive chairman of the board and require that three-quarters of the members of the board of directors must be independent, as affirmatively determined by the board of directors. The Corporate Governance Guidelines provide that a member of the board of directors may be considered independent if the member has not been employed by HealthSouth within the last three years (other than as interim chairman of the board of directors or interim chief executive officer) and:

does not have an immediate family member that has been employed by the company as an executive officer within the last three years;

has not received more than \$100,000 in direct compensation from the company within the last three years other than for services as a member of the board, interim chairman of the board or interim chief executive officer;

is not, and has not been within the last three years, an executive officer or an employee of a significant customer or supplier of the company;

is not, and has not been within the last three years, affiliated with or employed by the our present or former internal or external auditor;

is not affiliated with any not-for-profit entity which, in the business judgment of the board, receives significant contributions from the company;

is not employed as an executive officer of a public company at which an executive officer of the company serves as a member of such public company's board of directors;

has not had any of the relationships described above with any affiliate of HealthSouth;

is not a member of the immediate family of any individual, or have an immediate family member, with any of the relationships described in the paragraphs above; and

has no other material relationship which, in the business judgment of the board of directors, would impair his or her ability to exercise independent judgment.

Each member of the board must also meet any mandatory qualifications for membership on the board of directors, and the board of directors, as a whole, must meet the minimum independence requirements, imposed by any exchange or market on which HealthSouth's common stock is listed and any other laws and regulations applicable to the company.

The Special Committee wants to use this proposal as an opportunity for stockholders to express their views as to whether HealthSouth, in addition to its Corporate Governance Guidelines, should also amend its bylaws to require that the board's chairman be an independent director, without being influenced by any recommendation the Special Committee might make.

Approval of this proposal requires the affirmative vote of a majority of HealthSouth's shares present at the annual meeting and entitled to vote. Such approval would not, by itself, effect an amendment to HealthSouth's bylaws because the stockholder proposal solely recommends the

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amendment of HealthSouth's bylaws. If stockholders approve the proposal at this year's annual meeting, the board of directors will consider adopting an amendment to HealthSouth's bylaws that is consistent with the proposal, our Corporate Governance Guidelines, any exchange or market on which the company's common stock is listed and any other laws and regulations applicable to the company.

Proxies validly voted in accordance with the instructions on the proxy card will be voted on this proposal in the manner specified by the stockholder. If stockholders do not specify the manner in which their shares are to be voted on this proposal, such shares will be counted as abstentions. **THE SPECIAL COMMITTEE IS NOT OPPOSING THIS PROPOSAL AND MAKES NO VOTING RECOMMENDATION TO STOCKHOLDERS.**

**Table of Contents****EXECUTIVE OFFICERS AND OTHER INFORMATION****Executive Officers**

The following table lists all of our current executive officers. Each of our executive officers will hold office until his or her successor is selected, or until his or her earlier resignation or removal.

<b>Name</b>	<b>Age on 12/2/2005</b>	<b>Position</b>	<b>Date Became Officer</b>
Jay Grinney <sup>(1)</sup>	54	President and Chief Executive Officer; Director	5/10/2004
Michael D. Snow	50	Executive Vice President and Chief Operating Officer	6/30/2004
John L. Workman	54	Executive Vice President and Chief Financial Officer	9/20/2004
John Markus	54	Executive Vice President and Chief Compliance Officer	2/1/2004
Gregory L. Doody	41	Executive Vice President, General Counsel and Secretary	3/15/2004
James C. Foxworthy	54	Executive Vice President and Chief Administrative Officer	3/1/2005
Joseph T. Clark	49	President Surgery Centers Division	3/1/2005
Karen G. Davis	50	President Diagnostic Division	9/1/2003
Diane L. Munson	55	President Outpatient Division	3/15/2004
Mark J. Tarr	44	President Inpatient Division	9/27/2004

(1) Mr. Grinney's biographical information is provided above under Nominations for Director.

There are no arrangements or understandings known to us between any of the individuals listed above and any other person pursuant to which he or she was or is to be selected as an officer, other than any arrangements or understandings with officers of HealthSouth acting solely in their capacities as such.

*Joseph T. Clark President Surgery Centers Division*

Mr. Clark was named President of the surgery centers division effective March 1, 2005. Mr. Clark has 25 years of experience in various health services companies. From August 2000 to September 2005, Mr. Clark served as President and Chief Executive Officer of HealthMark Partners, Inc, an owner, operator and developer of ambulatory surgery centers and specialty hospitals. From March 1988 to August 1999, he served in various senior management roles, including Chief Executive Officer, of Response Oncology, a provider of cancer services through a series of 55 cancer centers, physicians practice management relationships, and clinical trials support services to the pharmaceutical industry. Mr. Clark also had 10 years of experience with two proprietary hospital chains, Humana and American Medical International.

*Karen G. Davis President Diagnostic Division*



Ms. Davis was named President of our diagnostic division on September 1, 2003. Ms. Davis joined us in 1994 after her employer, Diagnostic Health Corporation, was acquired by HealthSouth. During her tenure with us, she has served in various middle and senior management positions in our diagnostic and inpatient divisions, serving as Diagnostic Group Vice President for the Eastern United States from March 1994 to December 1999, as Chief Executive Officer for the HealthSouth Metro West Hospital, located in Birmingham, Alabama from December 1999 to October 2001, as our National Director for Clinical Trials from October 2001 to March 2003, and as a Product Line Manager in our diagnostic division from March 2003 to September 2003.

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*Gregory L. Doody Executive Vice President, General Counsel and Secretary*

Mr. Doody was named Executive Vice President, General Counsel and Secretary on March 16, 2004. Between September 2003 and March 2004, Mr. Doody served as our interim Corporate Counsel and Secretary. Before joining us, Mr. Doody was a partner at Balch & Bingham LLP, a regional law firm based in Birmingham, Alabama. He joined Balch & Bingham LLP in August 2000 and was a member of the firm's Financial Services and Transactions section and the Corporate, Tax and Finance section.

*James C. Foxworthy Executive Vice President and Chief Administrative Officer*

Mr. Foxworthy was named our Executive Vice President and Chief Administrative Officer effective March 1, 2005. From 2003 to 2005, Mr. Foxworthy served as corporate vice president for business transformation at Temple-Inland, a public corporation operating in various industry segments including corrugated packaging, financial services, and manufactured lumber products. From 1998 to 2003, he served as Executive Vice President of Inland Paperboard and Packaging and Group Vice President of Temple-Inland. Prior to Temple-Inland, Mr. Foxworthy spent 18 years with Union Camp Corporation, a leading maker of fine papers and packaging, where he served in a number of human resource roles including division manager of industrial relations.

*John Markus Executive Vice President and Chief Compliance Officer*

Mr. Markus was named Executive Vice President and Chief Compliance Officer on February 1, 2004. Mr. Markus served as Senior Vice President of Corporate Compliance with Fresenius Medical Care North America from 1999 to January 2004, as Vice President, Corporate Compliance with Oxford Health Plans from 1998 to 1999, and as Executive Vice President with National Health Laboratories, Inc. (now known as Laboratory Corporation of America, Inc.) from 1990 to 1996. Mr. Markus also practiced law with Greenberg, Traurig, Lipoff, Rosen & Quentel from 1996 to 1998 and with Akin, Gump, Strauss, Hauer & Feld from 1980 to 1990, both law firms based in Washington, D.C.

*Diane L. Munson President Outpatient Division*

Ms. Munson was named President of our outpatient division on March 15, 2004. Prior to joining us, Ms. Munson served as Vice President and General Manager for Beverly Enterprises Inc. from 2002 to 2004, as President and Chief Executive Officer of Fluidsense Inc. from 2001 to 2002, and as Senior Vice President Healthcare Services of Inlight, Inc. from 1999 to 2001. Ms. Munson has over 25 years of Healthcare Operations Management experience. She spent 18 years with Baxter International, Inc. and Caremark International, Inc. in various senior executive positions.

*Michael D. Snow Executive Vice President and Chief Operating Officer*

Mr. Snow was named Executive Vice President and Chief Operating Officer on June 30, 2004. Mr. Snow has over 24 years experience in healthcare business operations, serving most recently as President of HCA's Gulf Coast Division from 1996 to 2004 and as Chief Operating Officer of Columbia/HCA's Greater Houston Division from 1995 to 1996. From 1994 to 1995, Mr. Snow served as Chief Executive Officer of

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Doctors Hospital of Jefferson in Metairie, Louisiana, a Tenet Healthcare Corporation facility, and between 1980 and 1994, Mr. Snow served in various management and executive positions with Universal Health Services, Inc. and Humana, Inc., both healthcare providers.

*Mark J. Tarr President Inpatient Division*

Mr. Tarr was named President of our inpatient division on September 27, 2004. Mr. Tarr joined us in 1993, and has held various management positions with us, including serving as a Senior Vice President with responsibility for all inpatient operations in Texas, Louisiana, Arkansas, Oklahoma, and Kansas from 1997 to 2004, as Director of Operations of our 80 bed rehabilitation hospital in Nashville, Tennessee from 1994 to 1997, and as Chief Executive Officer/Administrator of our 70 bed rehabilitation hospital in Vero Beach from 1992 to 1994.

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*John L. Workman Executive Vice President and Chief Financial Officer*

Mr. Workman was named Executive Vice President and Chief Financial Officer on September 20, 2004. From 1998 to 2004, Mr. Workman served in various management and executive capacities with U.S. Can Company, including serving as its Chief Financial Officer from 1998 to 2002, as its Chief Operating Officer from 2002 to 2003, and as its Chief Executive Officer from 2003 to 2004. Prior to joining U.S. Can Company, Mr. Workman was employed by Montgomery Ward & Company, Inc. for 14 years, where he held several management and executive positions, including General Auditor, Chief Financial Officer, and Chief Restructuring Officer. Mr. Workman began his career in public accounting, and was a partner with the public accounting firm KPMG.

**Executive Compensation***Summary Compensation Table*

The following tables furnish, for the periods stated, compensation information concerning our current, interim, and former named executive officers, which definition includes each person who served as our chief executive officer during those periods, as well as our next four most highly compensated executive officers serving on December 31 of each period and up to two additional executive officers who would have otherwise qualified had they not left HealthSouth prior to December 31, 2004.

**Current and Interim Named Executive Officers**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) <sup>(4)</sup>	Awards Restricted Stock (\$) <sup>(5)</sup>	Options Underlying (#)	Payouts LTIP (\$)	
Jay Grinney President and Chief Executive Officer	2004	571,154			521,000	1,000,000		50,775
Michael D. Snow Executive Vice President and Chief Operating Officer	2004	294,735	100,000		450,000	105,000		266,647
John L. Workman	2004	127,173	75,000		138,875	55,000		11,600

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Executive Vice President and Chief  
Financial Officer

John Markus

Executive Vice President and Chief  
Compliance Officer

2004	327,452	70,000		132,000	65,000	232,887
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Gregory L. Doody <sup>(1)</sup>

Executive Vice President, General Counsel  
and Secretary

2004	275,961			118,500	65,000	277
2003						

Robert P. May <sup>(2)</sup>

2004			198,645	50,002		
2003			364,739		25,000	
2002					25,000	

Interim Chief Executive Officer

Joel C. Gordon <sup>(3)</sup>

2004	347,197		600,000	50,002		4,497
2003	422,467		600,000		25,000	2,938
2002	250,000		600,000		25,000	4,944

Interim Chairman of the Board

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- (1) We named Mr. Doody interim Corporate Counsel and Secretary in September 2003. He served in that role until March 15, 2004, when we named him Executive Vice President, General Counsel and Secretary. While interim Corporate Counsel and Secretary, Mr. Doody was not a HealthSouth employee but remained a partner of his law firm, Balch & Bingham LLP, devoting substantially all of his time to us as interim Corporate Counsel and Secretary.
- (2) We named Mr. May interim Chief Executive Officer on March 19, 2003. He served in that role until May 10, 2004, when we named Mr. Grinney our President and Chief Executive Officer. The amounts shown as other annual compensation to Mr. May comprise payments of \$40,000 per month made to RPM Systems while Mr. May was interim Chief Executive Officer, the primary purpose of which was to compensate Mr. May for his services. We made additional payments to RPM Systems that are not reflected in the above table, the primary purpose of which was to compensate Mr. May for his participation in various board and committee meetings. See the discussion above under the caption Compensation of Directors for information about director compensation.
- (3) We named Mr. Gordon interim Chairman of the Board on March 19, 2003. He served in that capacity until June 30, 2004, when we named him Chairman Emeritus. In connection with the merger between HealthSouth and Surgical Care Affiliates, Inc., we entered into a non-competition agreement and a consulting agreement with Mr. Gordon which are discussed below under the caption Joel Gordon Consulting Agreement. The amounts shown as salary in the above table comprise payments made to Mr. Gordon under the consulting agreement, which payments were increased to \$40,000 per month while he was interim Chairman of the Board. In 2003, a portion of these payments were deferred under a deferred compensation agreement between Mr. Gordon and HealthSouth. All amounts deferred during 2003 were paid by December 31, 2003. The amounts shown as other annual compensation in the above table comprise payments made under the non-competition agreement. We made additional payments to Mr. Gordon, not reflected in the table above, to compensate him for participation in various board and committee meetings. See the discussion above under the caption Compensation of Directors for information about director compensation. In addition, since 2001 we have provided Mr. Gordon with an office in Nashville, Tennessee, at a cost of \$4,050 per month.
- (4) Perquisites and other personal benefits did not exceed the lesser of either \$50,000 or 10% of the total annual salary and bonus for the named current or interim executive officer for each year covered.
- (5) The amounts shown in this column are based on the closing market price of our common stock on the date the restricted shares were granted. Except for grants made to Messrs. May and Gordon, all grants of restricted stock were made under our 1998 Restricted Stock Plan, and vest on the third anniversary of the effective date of the award if the executive is still employed by us. We granted 8,432 shares of restricted stock to Mr. May and 8,432 shares of restricted stock to Mr. Gordon under our 2004 Director Incentive Plan, which vest in three equal annual installments beginning on January 1 of the year following the date of the grant. As of December 31, 2004, the aggregate number and value (based on the closing price of our common stock on December 31, 2004) of shares of restricted stock held by the current and interim executive officers was as follows: Mr. Grinney 100,000 shares (\$628,000), Mr. Snow 75,000 shares (\$471,000), Mr. Workman 27,500 shares (\$172,700), Mr. Markus 30,000 shares (\$188,400), Mr. Doody 30,000 shares (\$188,400), Mr. May 8,432 shares (\$52,953), and Mr. Gordon 8,432 shares (\$52,953). Although we have never paid dividends on our common stock, our restricted stock and common stock are treated the same for the purpose of calculating dividends.
- (6) For the year ended December 31, 2004, all other compensation consists of (a) company matching contributions to our Retirement Investment Plan (401(k)) in the following amount: Mr. Grinney \$623; (b) company paid premiums for group term life insurance in the following amounts: Mr. Grinney \$764, Mr. Workman \$316, Mr. Markus \$764, Mr. Doody \$277, and Mr. Gordon \$4,497; (c) company relocation assistance payments in the following amounts: Mr. Grinney \$32,518, Mr. Snow \$266,647, Mr. Workman \$11,284, and Mr. Markus \$232,123; and (d) company paid premiums for long-term disability insurance in the following amount: Mr. Grinney \$16,870. For the years ended December 31, 2003 and 2002, all other compensation consists of company paid premiums for group term life insurance to Mr. Gordon.

Bryan P. Marsal served as Chief Restructuring Officer from March 24, 2003 until May 7, 2004, and Guy Sansone served as our interim Chief Financial Officer from March 24, 2003 until September 19, 2004. During that time, both Mr. Marsal and Mr. Sansone remained Managing Directors of Alvarez & Marsal, Inc., and both continued to be paid directly by that company, although we paid Alvarez & Marsal, Inc. for certain restructuring services. Neither Mr. Marsal nor Mr. Sansone received any options, equity, or other compensation of any kind from us.

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*Stock Option Grants*

The following table identifies all stock option grants made to our named executive officers during the year ended December 31, 2004.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term <sup>(1)</sup>	
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	5%(\$)	10%(\$)
Jay Grinney	1,000,000	12.86%	5.21	5/8/2014	3,276,541	8,303,398
Michael D. Snow	105,000	1.35%	6.00	6/30/2014	396,204	1,004,058
John L. Workman	55,000	0.71%	5.05	9/20/2014	174,675	442,662
John Markus	65,000	0.84%	4.40	3/5/2014	179,864	455,810
Gregory L. Doody	65,000	0.84%	3.95	3/15/2014	161,469	409,193

<sup>(1)</sup> The potential realizable value portion of the foregoing table represents a hypothetical value that might be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on the common stock over the term of the options, based on the fair market value of the common stock at the time the options were awarded. The amounts do not take into account provisions of the options relating to vesting, nontransferability, or termination of the option following termination of employment. In addition, because of the valuation model being used (value based on an assumed rate of return over time), options with higher exercise prices appear to have a significant current value when in fact they have little or no actual current value.

*Aggregated Stock Option Exercises*

The following table sets forth information concerning options exercised by our current and interim named executive officers during the year ended December 31, 2004, as well as information concerning unexercised options held by them.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Options at Fiscal Year End (#)		Value of Unexercised In-The-Money Options at Fiscal Year End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jay Grinney				1,000,000		1,070,000
Michael D. Snow				105,000		29,400
John L. Workman				55,000		67,650
John Markus						