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U.S. DISTRICT COURT
N.D. OF ALABAMA

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF ALABAMA

SOUTHERN DIVISION

UNITED STATES OF AMERICA	)	
	)	
v.	)	CR-03-J-0183-S
	)	
VIRGINIA B. VALENTINE	)	

RULE 11(f) FACTUAL BASIS FOR GUILTY PLEA

COMES NOW the United States of America through its undersigned counsel, for the purpose of satisfying the requirements of Federal Rule of Criminal Procedure 11(f), submits the following Factual Basis in support of the guilty plea of **VIRGINIA B. VALENTINE**:

HealthSouth

1. *HealthSouth Corporation* ("*HealthSouth*") was formed in 1984. *HealthSouth* is the nations largest provider of outpatient surgery, diagnostic imaging and rehabilitative health care services with over a thousand locations in all 50 state and abroad. Since around 1998, *HealthSouth*'s common stock has been listed on the New York Stock Exchange. Many of its executives, including its Chief Executive Officer ("CEO"), either owned shares in *HealthSouth*, or owned options to such shares. The CEO, and others, were also compensated in part by bonuses. The bonuses depended on how well *HealthSouth* performed financially.

3. *HealthSouth*, like other companies whose shares were publically traded, generated and publicized earnings expectations. Stock market analysts did the same. Whether a company met, exceeded, or failed to meet such expectations, was often a factor the influenced the price of its shares.

4. Since in or about 1986, when it made its Initial Public Offering (IPO), *HealthSouth* has been an issuer of a class of securities registered under Section 12 of the Securities Exchange Act of 1934, required to file quarterly and annual statements (Forms 10-Q and Forms 10K) under said Act with the Securities Exchange Commission ("SEC"). These statements reported *HealthSouth's* earnings, as well as the value of its assets and liabilities.

These reports were available to the public, which used them to determine whether *HealthSouth* met the aforesaid expectations.

5. Under provisions of the federal securities laws and the regulations promulgated thereunder, HealthSouth was also required to make and keep books, records, and accounts that accurately and fairly reflected the transactions and dispositions of the company's assets; and to devise and maintain a system of internal accounting controls sufficient to provide – (i) reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") and other criteria applicable to such statements and to maintain the accountability of assets; and (ii) reasonable assurances that the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

The Conspiracy.

6. Beginning before 1994, the CEO and senior management at *HealthSouth*, including William Owns, Weston Smith, and Emery Harris, conspired to inflate the financial statements filed with the SEC, at least some of which were electronically transmitted from the Northern District of Alabama to Washington, D.C., to defraud investors and *HealthSouth*, and to make false entries in *HealthSouth's* books, records, and accounts.

7. Owens, Smith, Harris, *HealthSouth's* CEO and others reviewed monthly and quarterly preliminary reports showing *HealthSouth's* true and actual financial results, which usually showed that *HealthSouth* had not met earnings per share expectations. These persons would then direct that *HealthSouth's* accounting staff manipulate HealthSouth's books, accounts and records to ensure that *HealthSouth's* earnings per share number met or exceeded those expectations.

8. Methods to increase earnings included making entries to reduced offsets against revenues or to reduce expenses. Corresponding fraudulent entries were made to increase assets and decrease liabilities on *HealthSouth's* Balance Sheet. Such entries were made in, among other accounts, *HealthSouth's* (1) Property, Plant and Equipment ("PP&E") accounts; (2) cash accounts; (3) inventory accounts; and (4) intangible asset (goodwill) accounts.

9. These entries caused the quarterly and annual financial statements filed with the SEC for the years from before 1994 through 2002, that is, Forms 10-Q and Forms 10K, to be materially false. The cumulative inflations summed to over one billion dollars. Some of these statements were transmitted electronically from Alabama to Washington, D.C., to be filed with the SEC.

10. The CEO and other conspirators benefitted from the conspiracy by receiving salaries, bonuses, and an increased value in their stock and stock options. The investing public suffered to the extent they paid for shares whose value was inflated by the aforesaid conspiracy.

The Defendant

11. Defendant Valentine received a degree in accounting and was first employed by *HealthSouth* as a staff accountant in 1995. Over the years, she received promotions to Senior Accountant, Accounting Manager. She was promoted to Assistant Vice-President in the Accounting Department in 2000. She has always reported to senior managers who were involved in the aforesaid scheme.

12. Beginning in 1997, Emery Harris and others instructed her to make entries to the books and records of *HealthSouth* that would reduce the contractual adjustment account. Defendant Valentine was given specific amounts by Emery Harris and others by which to reduce this account and was told to allocate that amount among various *HealthSouth* facilities. Defendant Valentine understood that these entries would result in an increase to *HealthSouth's* revenues. This became a regular practice at the end of each quarter when *HealthSouth's* financial statements were being compiled. She was never supplied with the usual back up documentation for the adjustments. The amounts being adjusted were large, in the millions of dollars, and became larger over time. She came to understand that the adjustments were bogus and designed to inflate the financial statements of *HealthSouth*. She, nevertheless, continued to make the entries as instructed up to around June of 2002. Even then, the previous inflations of the accounts, for the most part, were not backed out of the accounts. She also came to understand that the inaccurate information in her accounts would be and were reflected in financial statements submitted by *HealthSouth* to the SEC.

13. The Forms 10-Q and Forms 10K were often transmitted by wire to a service in

Washington, D.C., which filed them with the SEC. On or about November 13, 2001, *HealthSouth's* Form 10-Q for the third quarter of 2001 was transmitted by wire in interstate commerce from Birmingham, Alabama to Washington, D.C., for filing with the SEC.

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