

[Home](#) | [Top Story](#) | [Archive](#) | [Advertising](#) | [Contact Us](#)

Spotlight

Alabama Advantage

Submit Press Releases

About PMT Publishing

Advertising & Editorial Info

Advertising Index

20 Years of Alabama Business
 Order **\$18⁰⁰**
 Now **\$18⁰⁰** PLUS SHIPPING

subscribe **here**
 An entire year for only **\$21⁹⁵**

BUSINESS ALABAMA

Federal law may give offshore oilfields new offshore drilling.

Navigating a **Legal Reef**

PMT Business Publications

Inside Alabama Politics

Top Rank Alabama

Alabama Economic Development Guide

Aug. 2003

Scrushy Under Siege

The founder and former king of HealthSouth Corp. finds himself scorned in a town he once ruled. Ex-executives whisper about dirty dealings, public tributes are stripped down, yet a surprising number of sympathizers—even old enemies—come to his defense.

By Verna Gates

It was to be the wedding of the year, designed and catered by Martha Stewart, dripping with expense. Guests were flown all-expenses paid to Jamaica, no corners cut—unless you count the perks Richard Scrushy charged off to his former company, HealthSouth Corp., according to former employees and vendors.

Some of the very guests at that wedding are marching down a different aisle, casting disparagement rather than rice at the groom. They are former friends, employees and vendors of Scrushy, who rose so high so fast and sank even faster, cast out of the very company he founded and built.

Yet, on the other side of the congregation, Scrushy also has a surprisingly strong contingent of defenders, including former adversaries.

The wedding whispers started with the 11-piece invitation itself. Designed by HealthSouth employees while on the job, it was printed in the company's contracted print shop, on HealthSouth's tab, according to a former HealthSouth executive. Glen Bevis, sales manager of Craftsman Printing, confirms that his company never once sent a bill to Richard Scrushy personally, yet printed an estimated \$100,000 to \$150,000 in personal printing projects for the former CEO. Projects included lingerie tags for wife Leslie Scrushy's company, Upseedaises, posters for Scrushy's band Dallas County Line, party invitations for Alabama lead singer Randy Owen's 50th birthday party and public relations packets for the girl group 3rd Faze.

"He had a party one time—it seems almost sinful—he had a fountain put into his house and threw a party to celebrate the fountain," says Bevis. "The invitations were a four-color design that cost around \$2,000."

It's small potatoes compared to the Securities and Exchange Commission's accusation that Scrushy committed fraud by inflating corporate earnings to the tune of \$2.5 billion since 1997. The SEC filed the suit in Birmingham federal district court in March and later added to the complaint allegations of insider trading by Scrushy.

That case is still to be heard, but in the meantime Scrushy won a preliminary court victory, turning back an attempt by U.S. Attorney Alice Martin to freeze Scrushy's personal assets. Federal prosecutors came off looking like the failed heavy in that effort, and it won Scrushy sympathy in many quarters.

BizLinks

Departments

Business & Politics

CEO Q&A

Benchmarks

Career Notes

Scrushy has not faced criminal charges, but Martin has been avidly pursuing a criminal investigation, nailing down guilty pleas from every CFO in the history of HealthSouth. The guilty pleas—to either securities or banking fraud or both—are starting to look like an endless stream of lemmings. All, of course, have been fired, including Scrushy, who is even being denied his golden parachute.

The company—the third largest public company in Alabama in 2001, with revenues of \$4.38 billion—is struggling mightily for a turnaround. Last month company officials announced they do not plan to file for bankruptcy protection, counting on the continued forbearance of bondholders who have not received loan payments for three months. Officials project \$4.1 billion in revenue in the next 12 months, which could be enough to begin paring down the \$3.3 billion owed to banks and bondholders. The company also plans to complete an expensive state-of-the-art “digital hospital” in Birmingham, a dream project spearheaded by Scrushy but suspended when the scandal broke.

The day of the announcement of no bankruptcy plans, HealthSouth’s stock rose 99 cents to \$1.89—but still a mere fraction of the \$14.45 a share that Scrushy got when he sold 5.3 million shares in May 2002. HealthSouth plunged 44 percent on August 27 that year, following the announcement that a federal government ruling reducing Medicare and Medicaid reimbursements would make a \$175 million hit on earnings. The SEC alleges Scrushy knew the bad news when he sold his stock but failed to tell other shareholders.

Recent improvements in the company outlook have not wiped away the bad blood. When HealthSouth spokesperson Andy Brimmer asserts that the company is in better shape, he does so pointedly: “We’re doing fine now that we got rid of the crooks.”

Few are in the mood to forgive Scrushy even his alleged peccadilloes. Part of the problem, according to medical accounting specialist Jim Stroud, is that Scrushy never gave up the right to use HealthSouth’s checkbook as his own when the company went public.

“The ‘I built it and can do anything I want with it’ attitude is wrong. Personal expenses are clearly on the wrong side of the line,” says Stroud, a CPA with Warren Averett, Kimbrough & Marino in Birmingham.

Even Scrushy’s attorney Donald Watkins, who wants to buy HealthSouth and take it private, agrees. “Richard Scrushy probably wishes it had stayed private,” says Watkins, a man of wealth and some flamboyance in his own right.

Scrushy, marked with a modest childhood, had ambitions so strong they became a tragic flaw, some observe. “He started listening to the money,” says June Cunniff, a community activist and public relations specialist in Birmingham.

Loving the limelight, Scrushy also could be a stickler for his own image. Bevis reports that he once had to reprint a 16-page insert in a \$350,000 annual report because Scrushy, who had seen several proofs, decided he did not like the picture of himself in the book.

So associated was Scrushy with the company he founded, that he once used this image paradigm to try to convince board members that his home in Vestavia should be considered a HealthSouth facility, according to landscape architect Kelvin Terry, of J.K. Terry & Company.

“His argument was that he did so much hobnobbing and business entertaining



that he should turn his home into a corporate facility. I was in the planning because it would affect my billing. The board did not fall for that one," says Terry, who kept field records of his retainer days at HealthSouth and took note of the hours spent on personal projects for Richard Scrushy.

Terry describes once being asked to pick up catfish food for the Scrushy property pond and deliver it, making him an expensive delivery boy. While Terry tried to keep billing separate between Scrushy and HealthSouth, it was often difficult, he says, "They blurred the lines."

Terry says he was assigned a HealthSouth pager to make him available to Scrushy at all times. While Terry says he may have received phone calls day and night, his own access to the boss was limited.

"One of the biggest problems was that I was not allowed to meet with him [Scrushy]. I would meet with his assistants about his private homes," says Terry, who would present drawings of Scrushy's personal property to HealthSouth employees. Those employees would report to Scrushy and return to Terry with feedback, he says.

On one occasion, Terry reports that he was asked to work at the home of Leslie Scrushy, before she and Richard were married. "I did work for Leslie before he was divorced. You did what Richard asked," says Terry. "I felt like I was in The Firm. The vulgarity of it all just got to me." Stroud agrees with the analogy. "Following this story is like reading a John Grisham novel."

While Terry gathered catfish food, other, more expensive items were delivered to the Scrushy house. A former executive claims that Cybex, a gym equipment company, filled the Vestavia mansion with exercise machines gratis before they were able to sell to HealthSouth's rehab centers.

"He wanted his cut. He didn't pay a penny for it," says a former executive, one of four former senior HealthSouth officials who spoke on condition of anonymity. These unnamed sources each maintained that they feared identification might jeopardize their severance and pension benefits.

Another sore spot for former executives was Scrushy's cronyism. Boyhood friends from Selma, band members such as former CFO and Dallas County Line drummer, Bill Owens, who has pled guilty to fraud, and other friends grabbed choice jobs. A prime example cited was Jason Hervey, a former child star from "The Wonder Years" who became, at age 29, a senior vice president of media communications with little apparent experience. Suddenly, sources say, an entire department was reporting to him in his specially created position.

However, company politics were child-star play compared to more serious allegations of unethical real politics. Pressured by Scrushy to make political donations to his chosen candidates, vendors knew that the money they contributed could be recouped by upping the fee on the next job's invoice, says Bevis. Some vendors would pad pay invoices, he says.

"It was made clear to us that under the table, we could re-coup the donation. Some vendors just put the amount on the next job. We knew we could charge the donation back, but our owner refused to do it. He's just not that kind of man," says Bevis.

Adds Terry, "That was just part of the game, that you had to donate money to his candidates or buy tickets for his pet projects. I mostly dealt with his brother Jerry on donations. I never charged the money back, but some of the bigger consultants probably did."

According to Bevis, the larger the vendor, the bigger the donation required. "If Glen didn't make a contribution, he wouldn't get any printing," says a former executive.

Scrushy has publicly denied that he forced anyone to give, but others say otherwise.

"A lot of departments had their raises tied to how much they contributed to political campaigns. There was a list of what everybody gave. Each vice president and manager had a set minimum to give. There was the \$2,000 you and your wife could give and varying PAC money that might be expected," says the former executive.

Another source, a former HealthSouth accounting staffer, recalls a memo that he says was sent to the department demanding political donations. "When I saw the memo, I just thought, these guys must either be stupid or think they are above the law," he says.

It is a testament to Scrushy's stature that even in his weakened state few come forward to criticize and, of those, few are willing to put their names behind it. And there remains quite a few supporters who defend him, even a few former adversaries.

His staunchest cheerleader, of course, is attorney Watkins. "Richard Scrushy understood, appreciated and actively participated in the political process," Watkins says of Scrushy's political activity, which he describes as necessary and even beneficent. "HealthSouth is a global company and the industry leader in rehab medical services. You would expect it to be the most politically active for that industry. By anybody's measure, it was a patient advocacy entity when it comes to the political arena. If HealthSouth had not been extremely active in the political arena, patients would have gotten the short end of stick. Richard Scrushy does not apologize for protecting his customer base."

As a man once admired for his community activism, universities, libraries and conference centers bore Scrushy's name. But a rose by any other name would still have the same thorns, apparently, as buildings—starting with his own company's conference center—are divested of the prickly name of Richard M. Scrushy.

"It is a strange feeling. People take your philanthropic money and then turn around and kick you in the stomach," says Watkins. "He has seen a lot of that in last few months. He is operating in an environment of guilty until you prove yourself innocent."

Watkins leads the legal team that recently beat the SEC in its bid to freeze all of Scrushy's assets. Scrushy's salary plus bonus in 2002 was \$13 million, and his record year in take home pay was \$106 million in 1997. The U.S. attorney's office estimated his assets at \$175 million, including \$22 million in real estate, 13 yachts and boats, two airplanes, 40 automobiles and \$1 million in wine. All assets were released May 8 by Judge Inge Johnson.

"There was damn little evidence against Richard Scrushy," says a surprising supporter, Dr. Jimmy Blake, a former Birmingham city councilman who, on city issues, frequently opposed Scrushy and Scrushy ally former Birmingham Mayor Richard Arrington Jr.

"The SEC did not do a good job of proving its case," agrees Orrin Ford, a Birmingham attorney, who also has locked horns with Scrushy.

With the tough new statutes of the Sarbanes-Oxley Act, former officers at

HealthSouth who are judged or plead guilty are facing a severe standard in criminal sentencing, as much as 100 years, according to U.S. Attorney Martin.

Under the threat of criminal prosecution to that degree, Scrushy gets a good measure of sympathy from many, especially when the Alabama native son is compared to the legion of more pedigreed executives at Enron who have faced nothing so severe.

"All the feds are doing is this: They don't care about anybody but Richard Scrushy. They want an example under the new sentencing laws," says Blake. "To make an example out of somebody is not the way the system is supposed to work."

Adds Jim Stroud, "It's like a storm cloud over the golf course. You don't have to fry every golfer. Just one will clear the golf course. Punish HealthSouth and it will scare the rest of the corporate world."

Martin simply says, "The guilty will be brought to task."

There appears to be plenty of guilt to go around. While Richard Scrushy's legal team portrayed him as an innocent figurehead during his asset-freeze hearing, even accusing Owens of trying to form a coup to take over HealthSouth, some of the guilty plea gang portrayed Scrushy as the controlling mastermind. Former employees say they agree.

"Working next to Scrushy was like working next to an inferno. He was in total control," says one former staffer.

"He sure was in my hair a lot. He called it right down to the color of the tablecloths and seating arrangements," says another former executive.

The media is having a hard time buying the figurehead argument because, unlike most corporations, HealthSouth did not have a spokesperson: You had to talk to Scrushy. Even when Hervey served, it was still Scrushy-controlled.

"I have yet to talk to a journalist who spoke with Hervey," says Brimmer.

Meanwhile, Scrushy is fighting back, suing to be returned to the HealthSouth board, arguing that he has not been officially released. It's even possible the company also may be paying for his attorney's fees, totaling \$20 million to date. Watkins and Scrushy have filed a lawsuit to request reimbursement of the legal fees. According to Watkins, there is a clear contract that makes the company "duty-bound," to pay.

"There is no question. It is a solid contract," Watkins says. "I believe in the end, we will see that HealthSouth owes Richard Scrushy money. And we intend to get every penny, by the way."

Verna Gates is a freelance writer who frequently contributes to Business Alabama. She lives in Birmingham.

[Special Focus Archives](#)