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Equity Capital Markets

**UBS Warburg
COMMITTEE MINUTES**

		Attendees	Attendees by Phone
Name	HEALTHSOUTH	Mark Connelly	Dan Corkery
Date	05/13/02	Donal Orr	Julio Mojica
Size	\$77.2 Million Block Trade	Doug Fawell	Nick Pepe
Shares	-5.2 Million Shares	Bill Dowson	Michelle Bereaux
Timing	TBA	Jesse Mark	Bill Schneider
Filing	TBA	Kelly Shen	Justin Dwyer
Pricing	Sole Bookrunner	Mark Altman	Andy Tuthill
UBS Role			Annette Spencer
Managers	UBS Warburg		Bill Mc Gahan
Book	NA		Rod O'Neill
Co-Manager	TBA		
Gross Spread	100 (UBSW)		
Economics	Howard Capek		
Research			

Company Overview:

HEALTHSOUTH (NYSE: HRC, \$6.2 billion equity market capitalization) is the nation's largest provider of outpatient surgery, outpatient diagnostic and rehabilitative healthcare services. The company provides these services through a national network of inpatient and outpatient healthcare facilities, including inpatient and outpatient rehabilitation facilities, outpatient surgery centers, diagnostic centers, medical centers and other healthcare facilities. As of March 31, 2002, HEALTHSOUTH operated approximately 1,900 locations in all 50 states, Puerto Rico, the United Kingdom, Canada and Australia. During fiscal 2001, HRC generated \$4.4 billion in revenues with \$1.1 billion in EBITDA after minority interests. LTM 3/31/02 revenue and EBITDA after minority interest were \$4.420 million and \$1,155 million respectively. In addition, the Company's inpatient rehabilitation services accounted for approximately 40% of revenues in 2001.

Transaction Overview:

Richard Scrusby, the Company's CEO, is looking to sell 5.2 million shares in a block trade. Currently, Mr. Scrusby owns 20.9 million shares (which includes 15.7 million options exercisable) or 5.3% of HRC's total shares outstanding. Following the block trade, Mr. Scrusby will own 15.7 million shares or 4.0% of the total shares outstanding including his options exercisable. The Company and UBS Warburg intend to launch the transaction within 14 days after May 7, 2002. The gross spread on the transaction is still to be determined. Assuming a closing price of \$14.85 on 5/3/02, the offering size will be approximately \$77.2 million.

Issues:

The CEOs options will expire soon.

He can now exercise it because earnings were announced last week. The last time he sold was 4 years ago.

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Ben Lorello has approved the transaction.

We are hoping to do a \$500-600M sole book convert for the company in the future.

The stock closed at \$14.45. In the after-market, at 4:17PM, the stock was at \$14.39.

Nick Pepe believes that the discount is awful, and that there is only opportunity to lose here. Nick is not enthusiastic about the trade. The good thing is that it is less than 3 days of trading volume. The negative aspect is that the market is sloppy and will be going into the next few weeks. As well, no one is happy about the last block trade we did, PDX.

Bill McGahan commented that if we don't put this deal up, Salomon Smith Barney will.

The Company is willing to send out a press release.

The option exercise program is at Salomon.

The Company (erroneously) thinks that the last trade is \$14.40, and with a 2.5% discount, we would be buying this at \$14.05.

It was questioned whether we can buy this at \$14.05, re-offer it at \$14.05, and get 5 cents from the buyer as commission.

It was noted that the CEO does not need to sell all his shares. He can just exercise all his options, and just sell enough to cover the cost of exercising.

HOWARD WAS THEN BROUGHT OVER THE WALL

Howard questioned whether the CEO was borrowing money from the Company to buy these shares, as he did last time. The answer was no. He is actually do this cashless using the proceeds of this offering, and as well paying back the Company using the rest of the proceeds.

Howard pointed out that with the recent volatility in the market, healthcare has become somewhat of a safe haven. Howard noted that HEALTHSOUTH is currently at a discount to the hospital comps. The Company has had a very healthy earnings release.

It was questioned whether it will be a problem doing this block tomorrow morning with the conference happening as well. It was noted that this is better so that the CEO can tell everyone that this is happening.

Since he needs to exercise his options, it was questioned how quickly the transfer agent can process this. As well, it was questioned how the option program is set up.

Bill McGahan noted that we will buy this at \$14.04 or \$14.05 and re-offer is at \$14.10, or \$14.05 with a \$0.05 commission.

Approval:	Yes
Author:	Kelly Shen