B00 8/26/02

HHEC 293-0465
Confidential Treatment
Requested by HealthSouth Corp.

SCA Update

Mr. Taylor thanked Messrs Scrivly and Owens and the board for their support and ~~updated the board~~ made comments regarding SCA's management team and updated the board on current initiatives and development activities.

All guests left the room at this time for the Board to continue discussions regarding Project Crimson and CMS Transmittal 1753. After discussions a motion was made and approved to either spin the Surgery Division. There were no votes cast against the motion.

There being no further business to discuss, the meeting was adjourned.

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BOD
8/26/02

RMS WTO JCG PCW
LDS, GS, JC, SG

Guest: W. Smith B. Hale T McVay
D. Horton L. Taylor

KPMG - Sam McGann & Tom
UBS - ~~(4)~~ B. McGann 5 Others

4:00 PM CDST

UBS Presentation - Bill McGann Rich Layman
Strategic Alternatives Discussion

① Sequent Valuation Rod O'Neal UBS

1) Discussed CMS Transmittal letter and impact on business
2) Also discussed positive impact of Transmittal letter on our DOJ case.

KPMG ⊢ Feels there is justifiable business reason for the Spin-off/Split-off

→ Analysis of All options

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Debt Analysis

- Debt Capital Structure
- Financing Considerations

Time line

Discuss

Executing Strategic Alternatives

1) Spin-off or split off
2) Can tax free status be achieved
3) What are the appropriate capital structures & dividend policies
4) Pursue IPO before full Separation?

☆ RMS → WTO

Timeline of CMS Transmittal

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WTO → 1) Dated May 17
2) We received early June
3) We gave to H/C (intermediary) - Medical Director & they said it did not apply to us — would not put in writing
4) scheduled meeting with CMS July 18

meeting generated more questions than answers

- Back to CMS Aug 16 - Once again we don't have all questions answered but enough to begin our analysis of impact
- We have clarity of events that we are comfortable with
- We did not bill Medicare for 1st 45 days of 2tn until we got clarification

Bill Horton →

2

Guest leave room except T. McVay, L. Taylor, W. Smith, B. Hale, D. Horton

Discussion

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Thanks board, Richard & Bill for their support

Larry Taylor — Commends our Mgt Team + investors for Surgery Company
- Development activities

Bill Owens — Comments on storm to weather in relat company - but good cash flow + good Mgt Tm to come out very strong + positive -

Motion Watkins
Stripling 2nd

All Guest including BOH left the room for Board to continue discussion.

Get with WTO + RMS to see what needs to be added to Board minutes.

> "Discussion continued then motion approved with no votes against the motion"

Ed (6:28 PM)

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Draft

HealthSouth Corporation
Meeting of the Board of Directors
August 26, 2002
Minutes

A Meeting of the Board of Directors of HealthSouth Corporation (the "Corporation") was held in the Board Room at the Corporation's offices in Birmingham, Alabama pursuant to a Waiver of Notice dated August 26, 2002, a copy of which is attached to these minutes.

Board Members Present: RMS WTO JCG PCW
LDS GHS JSC, CSG

Guest: W. Smith, B. Hale, T. McVa
B. Horton, L. Tayn

KPMG - Sam McGarr
Tom Adent

Adent

UBS Warburg - Bill McGahan
~~5 others 2 [illegible]~~

Rod O'Neill, Hugh O'Hare, Scott Wollard, John Wagner and Rick Leaman (Rick Leaman via telephone)

Richard M. Scrushy acted as Chairman of the Meeting and Brandon O. Hale acted as Secretary.

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The meeting was called to order at 4:00 PM CDT

~~UBS Warburg~~

Project Crimson Strategic Alternatives Discussion

Mr. Scrudy asked Mr McGahan and his associates with UBS Warburg to lead the Board through a Strategic Alternative Discussion on Project Crimson. UBS Warburg began with a review of a segment valuation and a discussion of ways to improve business focus ~~the~~ by considering several alternatives including the sale of Diagnostics combined with the Spin-off of Surgery Centers, the sale of Surgery Centers, the spin-off or split off of Surgery Centers (with or without IPO) and the sale of Diagnostics. UBS Warburg then presented to the Board a Debt Analysis and discussed how the current debt profile impacted the alternatives being considered. ~~The timeline for execution and~~ a summary of the timeline of events and a discussion of key separation decisions to be made by the Company. In closing Mr McGahan and the UBS Warburg team presented a summary of the timeline of events to take place and lead a discussion of the key separation decisions that would to be made by the Corporation.

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KPMG

~~At that~~ Mr Scrushy requested ~~[illegible]~~ Mr McGarr and Mr Adent with KPMG to give their opinion or whether ~~they felt~~ there is a justifiable business reason for either the spin off or split off of the Surgery Division thus allowing a tax free transaction. Mr Adent responded ~~to the quest~~ that he ~~[illegible]~~ is very comfortable that there are several justifiable business reasons for the spin or split off transaction which would allow a tax-free status to be achieved.

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CMS Transmittal 1753

Mr Scrushy ~~advised the Board that Company representatives had again met with CMS and based on~~ asked Mr Owens to review with the Board the timeline of events resulting from CMS Transmittal 1753. Mr Owens stated that CMS Transmittal 1753 to Carriers on May 17, 2002 and the Company a copy of the transmittal from a third party in early June. The Company forwarded a copy to Blue Cross of Alabama (our fiscal intermediary)

and they advised us that it did not apply to us. The Company requested a formal letter from Blue Cross of Alabama but did not ~~recei~~ get one so a meeting was scheduled on July 18, 2002 with CMS and Reimbursement Representatives from HealthSouth. The meeting on July 18 generated more questions than answers therefore a subsequent meeting was scheduled for August 16, 2002. The meeting on August 16 did not answer all questions regarding Transmittal 1253 but answered enough questions to begin HealthSouth's analysis of impact.

Mr. Owens advised the Board that he was comfortable with the chronology of events and ~~that~~ the Company had been working diligently since the August 16 2002 meeting to the access impact of the Medicare changes. ~~Owens also advised the Board that the~~

Mr. Scrivly and Mr Owens advised the Board that the estimated impact on Revenue of CMS Transmittal 1253 would be $175 million per year.