

UNITED STATES DISTRICT COURT  
 NORTHERN DISTRICT OF ALABAMA  
 SOUTHERN DIVISION

In re HEALTHSOUTH	)	Master File No. CV-03-BE-
CORPORATION SECURITIES	)	1500-S
LITIGATION	)	
	)	<u>CLASS ACTION</u>
<hr/> This Document Relates To:	)	
	)	
<i>In re HealthSouth Corporation</i>	)	
<i>Bondholder Litigation</i> , Consolidated Case	)	
No. CV-03-BE-1502-S.	)	
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PARTIAL FINAL JUDGMENT AND  
 ORDER OF DISMISSAL WITH PREJUDICE  
 AS TO UBS DEFENDANTS

This matter came before the court for hearing on July 22, 2010 pursuant to the “Order Preliminarily Approving Settlements with Ernst & Young LLP and the UBS Defendants and Providing for Notice” (“Notice Order”) dated May 12, 2010 (doc. #1669) and on the “Bondholder Lead Plaintiff’s Motion for Final Approval of Settlement with Ernst & Young LLP<sup>1</sup> and UBS Defendants” (doc. #1696). The motion includes the application of Bondholder Lead Plaintiff and the UBS Defendants<sup>2</sup> for approval of the settlement set forth in the Stipulation of Settlement with UBS Defendants, dated as of April 22, 2010, (the “UBS Stipulation” or “UBS

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<sup>1</sup> The court will enter a separate Order on this motion as to Ernst & Young LLP.

<sup>2</sup>UBS Defendants means defendants UBS AG, UBS Warburg, LLC, Howard Capek, Benjamin D. Lorello and William C. McGahan.

Settlement”) (doc. #1664). By Order of the court dated September 30, 2009 (doc. #1629), this action was certified as a class action on behalf of the Bondholder Class pursuant to Federal Rule of Civil Procedure 23. Due and adequate notice was given to the Bondholder Class (of which the UBS Bondholder Class is a subset), as required in the Notice Order of the certification of the class, of the right to opt out of the class, and of the proposed settlement with the UBS Defendants on behalf of the UBS Bondholder Class. The court has considered all papers filed and proceedings held in this matter. Therefore, being fully informed in the premises and finding that good cause exists, the court GRANTS the motion for final approval of the settlement as to the UBS Defendants, and ORDERS as follows:

1. This Judgment incorporates by reference the definitions in the UBS Stipulation, and all terms used here shall have the same meanings as set forth in the UBS Stipulation, unless otherwise stated.

2. This court has jurisdiction over the subject matter of the Bondholder Action, and over all parties to the Bondholder Action, including all UBS Bondholder Class Members and UBS Defendants.

3. The court finds that the UBS Bondholder Class means all persons and entities who, between September 20, 2000 and March 18, 2003, inclusive, purchased, exchanged or otherwise acquired the bonds, notes or other debt instruments of HealthSouth and were damaged thereby. Excluded from the UBS

Bondholder Class are (a) current or former Defendants; (b) any officer or director of HealthSouth or any of its subsidiaries or affiliates; (c) the partners, directors and officers of E&Y and the UBS Defendants; (d) members of the immediate families of any of the current or former Individual Defendants; (e) any person, firm, trust, corporation, officer, director or other individual or entity in which any current or former Defendant has or had a controlling interest; and (f) the legal representatives, affiliates, heirs, successors or assigns of any such excluded party. Also excluded from the UBS Bondholder Class are those persons and entities identified in Exhibit 1, which the court finds and concludes validly and timely requested exclusion from the Bondholder Class in accordance with the prior Orders of this court.

4. Pursuant to Federal Rule of Civil Procedure 23, this court approves the UBS Settlement set forth in the UBS Stipulation and finds that

- (a) the UBS Stipulation is, in all respects, fair, reasonable and adequate and in the best interest of the UBS Bondholder Class;
- (b) no collusion existed in connection with the UBS Stipulation;
- (c) the UBS Stipulation was the product of informed, arm's-length negotiations among competent, able counsel; and
- (d) the record is sufficiently developed and complete to have enabled Bondholder Lead Plaintiff and the UBS Defendants to have adequately evaluated and considered their positions.

5. Therefore, pursuant to Rule 23 of the Federal Rules of Civil Procedure, the court finally approves the UBS Stipulation and Settlement in all respects, and directs the Bondholder Lead Plaintiff and E&Y to perform its terms.

6. The court DISMISSES – as to UBS Defendants only – all Released Claims of Bondholder Lead Plaintiff and the UBS Bondholder Class with prejudice, without costs as to Bondholder Lead Plaintiffs and UBS Defendants, except as and to the extent of costs provided for in the UBS Stipulation and in this Order. However, this Judgment shall not dismiss any claims of Bondholder Lead Plaintiff, the Bondholder Class (including the UBS Bondholder Class) against any Non-Settling Defendant(s) or any claims of the Stockholder Class, the Stockholder Settlement Class, the Derivative Plaintiffs and/or HealthSouth Corporation. This Judgment also shall not change or modify any of the terms of the Stipulation of Partial Settlement, filed with the court on September 26, 2006 (the “HealthSouth Settlement”) (doc. #533) and/or the Stipulation of Settlement with Ernst & Young LLP, filed with the court on April 22, 2010 (the “E&Y Settlement”) (doc. #1665).

7. Upon the Effective Date<sup>3</sup>, Bondholder Lead Plaintiff, all other members of the UBS Bondholder Class, the successors and assigns of any of them and anyone claiming through or on behalf of any of them, are permanently BARRED, ENJOINED and RESTRAINED from instituting, commencing or

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<sup>3</sup> Based on the definition of Effective Date contained in the UBS Stipulation (doc. #1664), the court understands this date to be the date on which this Judgment becomes final.

prosecuting in the Federal Actions or any other action or proceeding any Released Claims against any of the Released Persons. The Released Claims against each and all of the Released Persons shall be released and dismissed with prejudice and on the merits, and the UBS Bondholder Class shall be deemed to have covenanted not to sue the Released Persons with respect to any such Released Claims. Nothing in this paragraph shall release the Released Claims, against the Released Persons, of any person and entity listed on Exhibit 1 to this Order.

8. Upon the Effective Date, Bondholder Lead Plaintiff and the UBS Bondholder Class Members on behalf of themselves, their heirs, executors, administrators, predecessors, successors and assigns, shall be deemed to have, and by operation of this Judgment shall have, fully, finally, and forever released, relinquished and discharged all Released Claims against the Released Persons, regardless of whether Bondholder Lead Plaintiff and UBS Bondholder Class Members have executed and delivered Proof of Claim and Release forms in this UBS Settlement or in the HealthSouth Settlement, as applicable.

9. Upon the Effective Date, each of the Released Persons on behalf of themselves, their heirs, executors, administrators, predecessors, successors and assigns, shall be deemed to have, and by operation of this Judgment shall have, fully, finally, and forever released, relinquished and discharged all of the Released

Persons' Claims against each and all of the Bondholder Plaintiffs, Bondholder Plaintiffs' Counsel and UBS Bondholder Class Members.

10. All claims by any Person for indemnity or contribution or any other claim, however denominated, against the Released Persons where the injury to the Person bringing the claim is, or is measured by, that Person's liability and/or settlement payment to Bondholder Lead Plaintiff, the UBS Bondholder Class or any UBS Bondholder Class Member, that have been or may hereafter be brought by any Person, whether arising under state, federal, foreign or common law as claims, cross-claims, counterclaims, or third-party claims, in any court, arbitration proceeding, administrative agency, or other forum in the United States or elsewhere, based upon, arising out of, relating to, or in connection with the Released Claims are hereby released and discharged, and all such claims are permanently barred to the full extent provided by Section 21D-4(f)(7)(A) of the Private Securities Litigation Reform Act of 1995 ("PSLRA"), 15 U.S.C. §78u-4(f)(7)(A), and any Person is permanently enjoined from bringing any such claim.

11. All claims by any Released Person for indemnity or contribution or any other claim, however denominated, where the injury to the Released Person bringing the claim is, or is measured by, the Released Person's liability and/or settlement payment to Bondholder Lead Plaintiff, the UBS Bondholder Class or any UBS Bondholder Class Member, whether arising under state, federal, foreign or

common law as claims, cross-claims, counterclaims, or third-party claims, in any court, arbitration proceeding, administrative agency, or other forum in the United States or elsewhere, based upon, arising out of, relating to, or in connection with the Released Claims, against any Person other than a Person whose liability to the UBS Bondholder Class has been extinguished pursuant to the Settlement and this Judgment, are hereby released and discharged and all such claims are permanently barred to the full extent provided by Section 21D-4(f)(7)(A) of the PSLRA and any Released Person is permanently enjoined from bringing any such claim. Nothing herein shall affect any claims for indemnity among the Released Persons or their insurance carriers.

12. Any final verdict or judgment obtained by or on behalf of Bondholder Lead Plaintiff, the UBS Bondholder Class or any UBS Bondholder Class Member against any Person, other than the Released Persons, relating to the Released Claims, shall be reduced in accordance with the PSLRA and applicable law. However, UBS Bondholder Class Members' participation in any HealthSouth recovery from the UBS Defendants shall not be reduced as a result of this Judgment.

13. The notice given to the Bondholder Class (which includes the UBS Bondholder Class), including the individual notice to all members of the Bondholder Class who could be identified through reasonable effort, provided the

best notice practicable under the circumstances of these proceedings and of the matters set forth in it, including the proposed UBS Settlement set forth in the UBS Stipulation, to all persons and entities entitled to such notice. The notice fully satisfied the requirements of Federal Rule of Civil Procedure 23, the Securities Act of 1933, 15 U.S.C. §77z-1(a)(7), as amended by the Private Securities Litigation Reform Act of 1995, the Securities Exchange Act of 1934, 15 U.S.C. §78u-4(a)(7), as amended including by the PSLRA, and the requirements of due process.

14. Any order entered regarding any attorneys' fee and expense application shall in no way disturb or affect this Judgment and shall be considered separate from this Judgment.

15. Neither the UBS Stipulation nor the Settlement contained in it, nor any act performed or document executed pursuant to or in furtherance of the UBS Stipulation or the UBS Settlement may be offered or received: (a) against the UBS Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by the UBS Defendants of the truth of any fact alleged by UBS Bondholder Class Members or the validity of any claim that has been or could have been asserted in the Federal Actions or in any litigation, or the deficiency of any defense that has been or could have been asserted in the Federal Actions or in any litigation, or of any liability, negligence, fault, or wrongdoing of the UBS Defendants; (b) against the UBS Defendants as evidence of



a presumption, concession, admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant, or against the Federal Plaintiffs as evidence of any infirmity in the claims of the Federal Plaintiffs, the Bondholder Class (including the E&Y Bondholder Class and the UBS Bondholder Class), the Stockholder Class and/or the Stockholder Settlement Class; (c) against the UBS Defendants as evidence of a presumption, concession, or admission of any liability, negligence, fault or wrongdoing, or in any way referred to for any other reason as against any of the parties to the UBS Stipulation, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of the UBS Stipulation; or (d) against the UBS Defendants, Federal Plaintiffs, the Bondholder Class (including the E&Y Bondholder Class and the UBS Bondholder Class), the Stockholder Class and/or the Stockholder Settlement Class as an admission or concession that the consideration to be given represents the amount which could be or would have been recovered after trial. The UBS Defendants and/or their respective Related Parties may file the UBS Stipulation and/or this Judgment in any other action in which they are parties or that may be brought against them in order to support a defense, claim or counterclaim based on principles of *res judicata*, collateral estoppel, release, good faith settlement,

judgment bar or reduction or any theory of claim preclusion or issue preclusion or similar defense or counterclaim.

16. Without affecting the finality of this Judgment in any way, this court hereby retains continuing jurisdiction over the following: (a) the Bondholder Action; (b) implementation of this UBS Settlement and any award or distribution of the UBS Settlement Fund, including interest earned thereon; (c) disposition of the UBS Settlement Fund; (d) hearing and determining applications for attorneys' fees, interest and expenses in the Bondholder Action; (e) all parties hereto for the purpose of construing, enforcing and administering the UBS Stipulation; and (f) exclusive jurisdiction to enforce the provisions of the bar orders in this Judgment.

17. The court finds that during the course of the Bondholder Action, the Bondholder Lead Plaintiff and the UBS Defendants and their respective counsel at all times complied with the requirements of Federal Rule of Civil Procedure 11. The court commends the professional manner in which they conducted and resolved this complex matter.

18. In the event that the UBS Settlement does not become effective in accordance with the terms of the UBS Stipulation, or the Effective Date does not occur, or the UBS Settlement set forth in the UBS Stipulation is terminated pursuant to its terms, or in the event that the UBS Settlement Fund, or any portion thereof, is returned to the UBS Defendants, then this Judgment shall be rendered

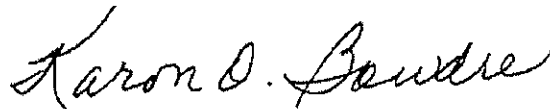
null and void to the extent provided by and in accordance with the UBS Stipulation and shall be vacated and, in such event, all findings and conclusions made, and orders entered and releases delivered in connection herewith shall be null and void to the extent provided by and in accordance with the UBS Stipulation.

Notwithstanding the foregoing, the exclusion from the Bondholder Class of the persons and entities listed on Exhibit 1 to this Order shall remain in full force and effect.

19. Without further order of the court, the Bondholder Lead Plaintiffs and the UBS Defendants may agree to reasonable extensions of time to carry out any of the provisions of the UBS Stipulation. However, counsel shall notify the court of any such extensions.

20. The court finds no reason for delay in the entry of this Partial Final Judgment and Order of Dismissal with Prejudice as to UBS Defendants and immediately directs the Clerk to enter judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure.

DONE and ORDERED this 26<sup>th</sup> day of July 2010.



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KARON OWEN BOWDRE  
UNITED STATES DISTRICT JUDGE

**Exhibit 1**

**Persons and Entities Excluded from the Bondholder Class  
Pursuant to Requests for Exclusion**

The following AIG Asset Management (U.S.), LLC entities (“AMG Entities”):

American General Life and Accident Insurance Company

American General Life Insurance Company (successor by merger to Pacific Union Assurance Company, The Franklin Life Insurance Company, North Central Life Annuity, Old Line Life Insurance Company)

American General Life Insurance Company of Delaware (successor by merger to Delaware American Life Assurance Company and f/k/a AIG Life Insurance Company)

American International Life Assurance Company of New York

American International Reinsurance Company, Ltd.

Delaware American Life Assurance Company (merged up into American General Life Insurance Company of Delaware)

Merit Life Insurance Co.

North Central Life Annuity (merged up into American General Life Insurance Company)

Pacific Union Assurance Company (merged up into American General Life Insurance Company)

SunAmerica Annuity and Life Assurance Company (formerly AIG SunAmerica Life Insurance Company)

SunAmerica Life Insurance Company

The Franklin Life Insurance Company (merged up into American General Life Insurance Company)

The United States Life Insurance Company of New York

The Variable Annuity Life Insurance Company

Western National Life Insurance Company (formerly AIG Annuity Insurance Company)

Yosemite Insurance Company