

The 'Wish List' is not direct investment advice: we the producers are private investors, not professional investment advisors.
Please make your own final investment decisions.

Health Management Associates Inc. Removed From Wish List

"...we are attracted to HMA's balance sheet (compared to other hospitals), the company's potentially stable dividend, and also HMA's takeover potential." Dec 27, 2007

Our original investment platform in HMA has been decimated. To be sure, HMA management is – *voluntarily* – going to add leverage to its balance sheet, the potentially 'stable' quarterly dividend has been axed, and instead of dressing itself up as a takeover target the company is instead going to pay a \$10/share dividend. One word describes today's announcement: astonishing.

January 17, 2007 HMA Announcement:

- One-Time Special Cash Dividend of \$10.00 Per Share to Return \$2.4 Billion to Shareholders
- Dividend to be Financed By \$3.25 Billion of Debt (**and will probably to be taxable at 15%!**)
- \$200 Million of **Additional** Bad Debt Expense.
- Same Hospital Admission and surgery Growth expected to be 1%-2% in 2007.

Some basic considerations after today:

- Cost of debt more than 8%.
- Annualized Interest Expense to shoot above \$200 million in 2006 (or \$270-\$280 million on a full-year post-dividend basis). Compare these ridiculously high numbers to recent history: total interest expenses of \$125 million have been recorded over the last decade (1996-2005).

We have decided to remove HMA from the Wish List primarily because we have come to the conclusion that HMA's board and management team are out to lunch, but also because the prospects for the business have weakened and the financial position of the company will no longer be attractive post-new debt.

As for the 'special' dividend... Within 12-months the interest expenses on the debt required to pay for this dividend will be so large that the company would have been able to maintain the quarterly dividend for more than 5-years on this money alone. The company can not continue to pay out pennies going forward but for some unbeknownst reason paying out 10 bucks is a good idea??? Astonishingly, as the company's stable and attractive financial history gets flushed down the toilet management actually believes they are doing shareholders a service...

In short, it is not very often that a company reports terrible news, has their debt ratings cut to junk, but sees their share price rise because a lot of debt was issued to pay a 1-time dividend. Strange day indeed...

We would consider re-selecting HMA on weakness, but probably not unless there are changes at the top. \$20.82* represents a 0.000% ROI year to date *before* taxes and commissions

*\$20.82 represents the bid on HMA at approximately 2:56 PM.

Sincerely, Brady Willett and Todd Alway