

CONTINENTAL MEDICAL SYSTEMS INC /DE/

Form 424B5

November 16, 2009

**Table of Contents**

This preliminary prospectus supplement and the accompanying prospectus relate to an effective registration statement under the Securities Act of 1933. The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus do not constitute an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where an offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)  
File No. 333-151848

Subject to completion, dated November 16, 2009

Preliminary prospectus supplement

To prospectus dated November 16, 2009

**\$290,000,000**

## HealthSouth Corporation

### % Senior Notes due

We are offering \$290 million aggregate principal amount of our % Senior Notes due . We will pay interest on the notes semiannually in arrears on February and August of each year, beginning on February , 2010. The notes will mature on .

We may redeem the notes, in whole or in part, at any time on or after , 2015, at the redemption prices set forth in this prospectus supplement. Prior to , 2013, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to % of their principal amount, plus accrued and unpaid interest thereon, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the notes remains outstanding after giving effect to such redemption. In addition, at any time prior to , 2015, we may at our option redeem all or a portion of the notes, at a redemption price equal to 100% of their principal amount plus a make-whole premium, plus accrued and unpaid interest thereon, if any, to the redemption date. See Description of Notes Optional Redemption . If we experience specific kinds of changes in control, we must offer to purchase the notes.

The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our subsidiary guarantors. The notes will rank equal in right of payment to our current and future senior debt and will rank senior in right of payment to any future subordinated debt. The notes will be effectively subordinated to our current and future secured debt, including borrowings under our senior secured credit facilities, to the extent of the value of the assets securing such debt. In addition, the notes and the guarantees will be effectively subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.

The notes will not be listed on any securities exchange. We expect that delivery of the notes will be made to investors in book-entry form through the facilities of The Depository Trust Company on or about , 2009.

**Investing in the notes involves risks. You should carefully read and consider the risk factors beginning on page S-7 of this prospectus supplement, page 3 of the accompanying prospectus and in our periodic reports and other information that we file with the Securities and Exchange Commission before you invest in the notes.**

Price Underwriting Proceeds, before expenses, to

Edgar Filing: CONTINENTAL MEDICAL SYSTEMS INC /DE/ - Form 424B5

	<b>to public</b>	<b>discount</b>	<b>HealthSouth Corporation</b>
Per Note	<b>%</b>	<b>%</b>	<b>%</b>
Total	\$	\$	\$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from 2009 to the date of delivery. The proceeds to HealthSouth Corporation set forth above do not take into account offering expenses.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

*Joint book-running managers*

**J.P. Morgan**

**Barclays Capital**

**Goldman, Sachs & Co.**

The date of this prospectus supplement is November , 2009.

**Table of Contents**

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus filed by us with the Securities and Exchange Commission (the "SEC"). We have not, and the underwriters have not, authorized anyone else to provide you with different or additional information. If anyone provides you with any other information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any document incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

**Table of contents**

	<b>Page</b>
<b>Prospectus supplement</b>	
<u>About this prospectus supplement</u>	S-1
<u>Forward-looking statements</u>	S-1
<u>Summary</u>	S-2
<u>Risk factors</u>	S-7
<u>Use of proceeds</u>	S-17
<u>Capitalization</u>	S-18
<u>Description of notes</u>	S-19
<u>Certain material United States federal income tax considerations</u>	S-69
<u>Underwriting</u>	S-73
<u>Legal matters</u>	S-77
<b>Prospectus</b>	
<u>About this prospectus</u>	1
<u>Forward looking statements</u>	2
<u>Risk Factors</u>	3
<u>The company</u>	4
<u>Use of proceeds</u>	5
<u>Ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends</u>	6
<u>Description of capital stock</u>	7
<u>Description of warrants</u>	9
<u>Description of debt securities</u>	10
<u>Plan of distribution</u>	13
<u>Where you can find more information</u>	16
<u>Incorporation of certain information by reference</u>	17
<u>Legal matters</u>	18
<u>Experts</u>	18

It is expected that delivery of the notes will be made against payment therefor on or about the date specified on the cover of this prospectus supplement, which is the tenth business day following the date of pricing of the notes (such settlement cycle being referred to as "T+10"). You should note that trading of the notes on the date of pricing or on the next succeeding six business days may be affected by the T+10 settlement. See "Underwriting" for additional information.

**Table of Contents**

## **About this prospectus supplement**

Unless otherwise stated or the context otherwise requires, the terms HealthSouth, we, us, our, and the Company refer to HealthSouth Corporation and its subsidiaries.

We provide information to you about this offering in two separate documents. The accompanying prospectus provides general information about us and the securities we may offer from time to time. This prospectus supplement describes the specific details regarding this offering. Additional information is incorporated by reference in this prospectus supplement. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

## **Forward-looking statements**

This prospectus supplement contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to future events, our future financial performance, or our projected business results. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, targets, potential, or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

each of the factors incorporated herein by reference and discussed under the heading Risk Factors, starting on page S-7 of this prospectus supplement;

changes or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors;

our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing shortages;

changes in the regulations of the healthcare industry at either or both of the federal and state levels;

competitive pressures in the healthcare industry and our response to those pressures;

our ability to successfully access the credit markets on favorable terms; and

general conditions in the economy and capital markets.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

**Table of Contents**

## **Summary**

The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this prospectus supplement. Because this is a summary, it may not contain all the information that may be important to you. You should read the entire prospectus supplement together with the accompanying prospectus, as well as the information incorporated by reference herein, before making an investment decision.

### ***Company overview***

We operate inpatient rehabilitation hospitals and long-term acute care hospitals, or LTCHs, and provide treatment on both an inpatient and outpatient basis. As of September 30, 2009, we operated 94 inpatient rehabilitation hospitals (including 3 hospitals that operate as joint ventures which we account for using the equity method of accounting), 6 freestanding LTCHs, 44 outpatient rehabilitation satellites (operated by our hospitals), and 25 licensed, hospital-based home health agencies. In addition to HealthSouth hospitals, we manage six inpatient rehabilitation units and one outpatient satellite through management contracts. Our inpatient hospitals are located in 26 states, with a concentration of hospitals in Texas, Pennsylvania, Florida, Tennessee, and Alabama. We also have two hospitals in Puerto Rico.

We are the nation's largest provider of inpatient rehabilitative healthcare services in terms of revenues, number of hospitals, and patients treated and discharged. Our inpatient rehabilitation hospitals offer specialized rehabilitative care across a wide array of diagnoses and deliver comprehensive patient care services. The majority of patients we serve experience significant physical disabilities due to medical conditions, such as strokes, hip fractures, head injury, spinal cord injury, and neurological disorders, that are non-discretionary in nature and which require rehabilitative services in an inpatient setting. Our team of highly skilled physicians, nurses, and physical, occupational, and speech therapists utilize the latest in equipment and techniques to return patients to home and work. Patient care is provided by nursing and therapy staff as directed by a physician order. Internal case managers monitor each patient's progress and provide documentation of patient status, achievement of goals, discharge planning, and functional outcomes. Our hospitals provide a comprehensive interdisciplinary clinical approach to treatment that leads to what we believe is a higher level of care and superior outcomes.

HealthSouth was incorporated under the laws of the State of Delaware. Our principal executive offices are located at 3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243, and our telephone number is (205) 967-7116. Our Internet website address is [www.healthsouth.com](http://www.healthsouth.com). Information on our website does not constitute part of this prospectus supplement and should not be relied upon in connection with making any investment decision with respect to the notes.

### ***Recent developments***

#### **The tender offer and consent solicitation**

On November 16, 2009, the Company commenced a cash tender offer for any and all of its outstanding Floating Rate Senior Notes due 2014 (the 2014 Notes), and a solicitation of consents to eliminate substantially all the restrictive covenants and certain events of default contained in the indenture governing the 2014 Notes. The total consideration payable in respect

## **Table of Contents**

of 2014 Notes that are validly tendered, and for which the related consents are delivered, is \$1,030 per \$1,000 principal amount of the 2014 Notes, plus accrued but unpaid interest up to but excluding the settlement date. To be eligible to receive the total consideration, which includes an early tender amount of \$30 per \$1,000 principal amount of 2014 Notes, holders must tender their notes, and deliver the related consents, prior to 5:00 p.m., New York City time, on November 30, 2009 (the Early Tender Deadline ). The tender offer is scheduled to expire at 12:00 midnight, New York City time, on December 14, 2009, unless the Company chooses to extend or earlier terminate the tender offer. The closing of this offering is conditioned upon the substantially concurrent acceptance for purchase by the Company of all of the 2014 Notes and related consents validly tendered (and not validly revoked) in the tender offer prior to the Early Tender Deadline. This prospectus supplement is not an offer to purchase the 2014 Notes and the tender offer and consent solicitation is made only by and pursuant to the terms of the Offer to Purchase and Consent Solicitation Statement dated November 16, 2009, as the same may be amended or supplemented.

## **Senior secured credit facilities**

In October 2009, we amended our senior secured credit facilities (our Credit Agreement ) to extend the maturity date of a portion of our term loan facility from March 2013 to March 2014, subject to an automatic extension to September 10, 2015 if the 2014 Notes have been repaid or refinanced prior to March 15, 2014, and to amend certain provisions of the Credit Agreement. The amendment converted \$300 million of outstanding term loans into a new tranche of term loans that accrues interest at a rate of LIBOR plus 3.75%. The remainder of the term loan facility continues to accrue interest at LIBOR plus 2.25%. Both portions of the term loan facility continue to amortize at the per quarter rate of 0.25% of the principal outstanding. The other amendments to the Credit Agreement primarily permit future extensions of all or a portion of the term loans, revolving loans and synthetic letter of credit commitments, allowed us to issue senior secured and unsecured notes and increased amounts we can spend for acquisitions and selected debt repurchases.

**Table of Contents**

## The offering

The following summary contains basic information about the notes and is not intended to be complete. It may not contain all the information that may be important to you. For a more complete description of the notes, see Description of Notes. In this summary of the offering, the words we, us, and our refer only to HealthSouth Corporation and not to any of its subsidiaries.

<b>Issuer</b>	HealthSouth Corporation
<b>Notes</b>	% Senior Notes due .
<b>Aggregate principal amount</b>	\$290,000,000.
<b>Date of maturity</b>	The notes will mature on .
<b>Interest</b>	Interest will accrue at the rate of % per year. Interest on the notes will accrue from , 2009, and will be payable semiannually in arrears on February and August of each year, beginning on February , 2010.
<b>Guarantees</b>	The notes will be jointly and severally guaranteed on a senior unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our Credit Agreement (as defined below) or our outstanding 10.75% Senior Notes due 2016. However, certain of our subsidiaries will not guarantee the notes. For the nine months ended September 30, 2009, the non-guarantor subsidiaries represented in the aggregate approximately 29.7% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA. As of September 30, 2009, the non-guarantor subsidiaries held approximately 22.4% of our consolidated property and equipment, net. For a discussion of the risks relating to the guarantees, see Risk Factors Risks Related to the Notes Not all of our subsidiaries will be guarantors under the indenture governing the notes. The notes will be effectively junior to the indebtedness and other liabilities of our non-guarantor subsidiaries.
<b>Ranking</b>	The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our guaranteeing subsidiaries. The notes will rank equal in right of payment to our current and future senior debt and senior in right of payment to any subordinated debt. The notes will be effectively subordinated to our current and future secured debt, including borrowings under our Credit Agreement, to the extent of the value of the assets securing such debt. See Description of Notes Ranking . In addition, the notes and the guarantees will be effectively subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.

## **Table of Contents**

**Optional redemption** We may redeem the notes, in whole or in part, at any time on or after \_\_\_\_\_, 2015, at the redemption prices set forth in this prospectus supplement.

Prior to \_\_\_\_\_, 2013 we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to \_\_\_\_\_% of their principal amount, plus accrued and unpaid interest thereon, if any, to the redemption date, if at least 65% of the aggregate principal amount of the notes remains outstanding after giving effect to such redemption.

In addition, at any time prior to \_\_\_\_\_, 2015, we may at our option redeem all or a portion of the notes, at a redemption price equal to 100% of principal amount plus a make-whole premium, plus accrued and unpaid interest thereon, if any, to the redemption date.

See Description of Notes Optional Redemption.

**Change of control** Upon the occurrence of a Change of Control (as defined in this prospectus supplement), each holder of the notes will have the right to require us to repurchase such holder's notes at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. See Description of Notes Change of Control.

**Covenants** The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

incur or guarantee indebtedness;

pay dividends on, or redeem or repurchase, our capital stock; or repay, redeem or repurchase our subordinated obligations;

issue or sell certain types of preferred stock;

make investments;

incur obligations that restrict the ability of our subsidiaries to make dividends or other payments to us;

sell assets;

engage in transactions with affiliates;

create certain liens;

enter into sale/leaseback transactions; and

merge, consolidate, or transfer all or substantially all of our assets.

These covenants are subject to important qualifications and exceptions, which are described under the heading Description of



S-5

**Table of Contents**

Notes in this prospectus supplement. The limitations on our ability to make certain payments, including dividends on, or redemptions or repurchases of, our capital stock and repayments, redemptions or repurchases of our subordinated obligations, are based on a calculation of our net income since July 1, 2006 (rather than since the date of this offering) and equity issuances, conversion of debt to equity and return on certain investments subsequent to the date of this offering. Accordingly, as of September 30, 2009, we would have had the capacity to make certain payments of up to approximately \$393.0 million under the indenture that governs the notes. See **Description of Notes** **Certain Covenants** **Limitation on Restricted Payments** for additional information.

**Listing** The notes will not be listed on any securities exchange. Currently there is no public market for the notes.

**Use of proceeds** We intend to use the net proceeds from the sale of the notes, together with cash on hand, to (i) pay the consideration required in connection with our tender offer for all of our outstanding 2014 Notes, including any applicable accrued and unpaid interest on such notes, and (ii) redeem any 2014 Notes that may remain outstanding following completion of the tender offer, including the payment of any applicable accrued and unpaid interest on such notes.

**Conditions to the offering** The closing of this offering is conditioned upon the substantially concurrent acceptance for purchase by the Company of all of the 2014 Notes and related consents validly tendered (and not validly revoked) in the tender offer prior to the Early Tender Deadline. See **Summary** **Recent Developments** **The Tender Offer and Consent Solicitation** for additional information.

**Additional notes** The indenture governing the notes does not limit the amount of notes, debentures or other evidence of indebtedness that we may issue under the indenture and provides that notes, debentures or other evidence of indebtedness may be issued from time to time in one or more series.

**Risk factors** You should carefully consider all information set forth or incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, you should carefully read the section entitled **Risk Factors** beginning on page S-7 of this prospectus supplement before purchasing any of the notes.

**Trustee** The Bank of Nova Scotia Trust Company of New York.

**Governing law** The notes will be governed by the laws of the State of New York.

**Table of Contents**

## **Risk factors**

Investing in the notes involves risks. In addition to the risk factors set forth below, you should carefully consider the risks described under the caption "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 and described under the caption "Risk Factors" in the accompanying prospectus (which are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before making a decision to invest in our notes. Additional risks and uncertainties not currently known to us or that we currently consider immaterial could also have a material adverse effect on our business operations.

### **Risks related to the notes**

*Our substantial indebtedness may impair our financial condition and prevent us from fulfilling our obligations under the indenture governing the notes and our other debt instruments.*

As of September 30, 2009, we had approximately \$1.6 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding \$104.9 million in capital leases).

Our substantial indebtedness could have important consequences to you, including:

making it more difficult for us to satisfy our obligations with respect to the notes;

limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes;

requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our business strategy and other general corporate purposes;

making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult for us to react quickly to, changing conditions;

placing us at a competitive disadvantage compared with our competitors that have less debt; and

exposing us to risks inherent in interest rate fluctuations because some of our borrowings will be at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

We are required to use a substantial portion of our cash flow to service our debt. Although we expect to make scheduled interest payments and principal reductions, we cannot assure you that changes in our business or other factors will not occur that may have the effect of preventing us from satisfying obligations under the indenture governing the notes and our other debt instruments. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other needs, we may have to refinance all or a portion of our debt, obtain additional financing or reduce expenditures or sell assets that we deem necessary to our business. We cannot assure you that any of these measures would be possible or that any

## **Table of Contents**

additional financing could be obtained. A return to recent tight credit markets will make additional financing more expensive and difficult to obtain. The inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations to you under the notes.

***Despite current indebtedness levels, we may still be able to incur more debt. This could further exacerbate the risks associated with our substantial indebtedness.***

Subject to specified limitations, the indenture governing the notes, the indenture governing our 10.75% Senior Notes due 2016 (our Fixed Rate Notes ) and our Credit Agreement permit us and our subsidiaries to incur material additional debt. If new debt is added to our or any of our subsidiaries' current debt levels, the risks described in the immediately preceding risk factor could intensify. See Description of Notes Certain Covenants Limitation on Indebtedness for additional information.

***The restrictive covenants in our credit agreement, the indenture governing our fixed rate notes and the indenture governing the notes may affect our ability to operate our business successfully.***

The indenture governing the notes, the indenture governing our Fixed Rate Notes and the terms of our Credit Agreement do, and our future debt instruments may, contain various provisions that limit our ability and the ability of certain of our subsidiaries to, among other things:

incur additional indebtedness;

make restricted payments;

create certain liens;

sell assets;

enter into sale and leaseback transactions;

issue or sell certain types of preferred stock;

in the case of our restricted subsidiaries, restrict them from making dividends or other payments to us;

in the case of our restricted subsidiaries, incur or guarantee debt;

engage in transactions with affiliates;

create unrestricted subsidiaries; and

merge, consolidate or transfer all or substantially all of our assets and the assets of our subsidiaries (if any) on a consolidated basis. These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities.

In addition, our Credit Agreement requires us to maintain specified financial ratios and satisfy certain financial condition tests. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. Although we were in compliance with those ratios and tests as of

S-8

## Table of Contents

September 30, 2009, we cannot assure you that we will continue to meet those tests or that the lenders will waive any failure to meet those tests. A severe downturn in earnings or a rapid increase in interest rates could impair our ability to comply with the financial covenants contained in our Credit Agreement. If we anticipated a potential covenant violation, we would seek relief from our lenders, which would have some cost to us, and such relief might not be on terms favorable to those in our existing Credit Agreement. A breach of any of these covenants or any other restrictive covenants contained in our Credit Agreement or the indenture could (after giving effect to applicable grace periods, if any) result in an event of default. If an event of default under our Credit Agreement or the indenture occurs, the holders of the affected indebtedness could declare all amounts outstanding, together with accrued interest, to be immediately due and payable, which, in turn, could cause the default and acceleration of the maturity of our other indebtedness. If we were unable to pay such amounts, the lenders under our Credit Agreement could proceed against the collateral pledged to them. We have pledged substantially all of our assets to the lenders under our Credit Agreement. In such an event, we cannot assure you that we would have sufficient assets to pay amounts due on the notes. As a result, you may receive less than the full amount you would otherwise be entitled to receive on the notes. See Note 8, *Long-term Debt* to the consolidated financial statements contained in our Current Report on Form 8-K filed with the SEC on November 16, 2009, which was filed for the purpose of updating the Company's previously issued annual financial statements and certain other financial information originally reported within our Annual Report on Form 10-K for the year ended December 31, 2008 (our Recast 8-K), and Item 2, *Properties* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and Description of Notes Certain Covenants in this prospectus supplement for additional information.

These restrictive covenants are subject to important exceptions and qualifications, including with respect to our ability to make restricted payments. As of September 30, 2009, the amount available for restricted payments under the indenture governing our Fixed Rate Notes was approximately \$393.0 million. See Description of Notes Certain Covenants Limitation on Restricted Payments for additional information.

***The notes and the guarantees will not be secured by any of our assets. Our Credit Agreement is secured and our senior lenders have a prior claim on substantially all of our assets.***

The notes and the guarantees will not be secured by any of our assets. However, our Credit Agreement is secured by substantially all of our assets, including the stock of substantially all of our domestic wholly owned subsidiaries (including future subsidiaries, if any). If we become insolvent or are liquidated, or if payment under any of the instruments governing our secured debt is accelerated, the lenders under those instruments will be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to the instruments governing such debt. Accordingly, the lenders under our Credit Agreement have a prior claim on our assets securing the debt owed to them. In that event, because the notes and the guarantees will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy your claims in full.

As of September 30, 2009, we had \$753.2 million of senior secured indebtedness (excluding \$104.9 million of capital lease obligations), \$400.0 million of available borrowing capacity under the revolving portion of our Credit Agreement and \$300.0 million capacity under the incremental facility of our Credit Agreement. We will be permitted to borrow substantial additional secured indebtedness in the future under the terms of the indenture. See Description of Notes Certain Covenants Limitation on Indebtedness and Description of Notes Certain Covenants Limitation on Liens.

## **Table of Contents**

***Not all of our subsidiaries will be guarantors under the indenture governing the notes. The notes are effectively junior to the indebtedness and other liabilities of our non-guarantor subsidiaries.***

Not all of our subsidiaries will guarantee the notes. The notes will be guaranteed by all of our current and future subsidiaries that guarantee borrowings under our Credit Agreement or incur or guarantee any outstanding capital markets debt. Certain of our 100% owned subsidiaries and all of our non-wholly owned subsidiaries, which are not guarantors of our Credit Agreement and through which we conduct a significant portion of our business, will not guarantee the notes due to, among other things, restrictions in their constituent documents or other agreements. The notes are effectively subordinated to the outstanding indebtedness and other liabilities, including trade payables, of our non-guarantor subsidiaries. Assuming we had completed this offering on September 30, 2009, these notes would have been effectively subordinated to approximately \$190.2 million of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our non-guarantor subsidiaries.

The non-guarantor subsidiaries generated approximately 29.0% of our consolidated net operating revenues and approximately 24.2% of our Adjusted Consolidated EBITDA in 2008. For the nine months ended September 30, 2009, the non-guarantor subsidiaries represented in the aggregate approximately 29.7% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA. As of September 30, 2009, the non-guarantor subsidiaries held approximately 22.4% of our consolidated property and equipment, net. In the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us.

***The lenders under the Credit Agreement will have the discretion to release the guarantors under the senior secured credit agreement under certain circumstances, which will cause those guarantors to be released from their guarantees of the notes.***

While any obligations under the Credit Agreement remain outstanding, any guarantee of the notes may be released without action by, or consent of, any holder of the notes or the trustee under the indenture governing the notes, at the discretion of lenders under the Credit Agreement, if the related guarantor is no longer a guarantor of obligations under the Credit Agreement and does not have or guarantee any outstanding capital markets indebtedness. See Description of Notes. The lenders under the Credit Agreement will have the discretion to release the guarantees under the Credit Agreement under certain circumstances. Holders of the notes will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the notes, and the indebtedness and other liabilities, including trade payables, of those subsidiaries will effectively be senior to claims of any holder of the notes.

***We may not have the funds to purchase the notes upon the change of control offer as required by the indenture governing the notes.***

Upon a change of control, as defined in the indenture, subject to certain conditions, we are required to offer to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the date of repurchase. The source of funds for that purchase of notes will be our available cash, cash generated from our operations or the operations of our subsidiaries or other potential sources, including borrowings, sales of

## **Table of Contents**

assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any change of control to make required repurchases of notes tendered. In addition, the terms of our Credit Agreement will limit our ability to repurchase your notes and will provide that certain change of control events will constitute an event of default thereunder. Our future debt agreements may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all the notes upon a change of control, the financial effect of this repurchase could cause a default under our other debt, even if the change of control itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of the notes and our other debt or that restrictions in our Credit Agreement and the indenture will not allow such repurchases. In addition, certain corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture. See Description of Notes Change of Control in this prospectus supplement for additional information.

### ***There is no established trading market for the notes.***

There is no existing trading market for the notes. We cannot assure you that an active trading market will develop for the notes. We do not intend to apply for listing of the notes on any securities exchange. If a market for the notes does not develop, you may not be able to resell your notes for an extended period of time, if at all. Consequently, your lenders may be reluctant to accept the notes as collateral for loans. Moreover, if markets for the notes do develop in the future, we cannot assure you that these markets will continue indefinitely or that the notes can be sold at a price equal to or greater than their initial offering price. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market for the notes, if any, may be subject to similar disruptions. Any such disruptions may materially adversely affect you as a holder of the notes. In addition, in response to prevailing interest rates and market conditions generally, as well as our performance, the notes could trade at a price lower than their initial offering price.

### ***Federal and state statutes could allow courts, under specific circumstances, to void the subsidiary guarantees, subordinate claims in respect of the notes and require note holders to return payments received from subsidiary guarantors.***

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, a court could void a subsidiary guarantee or claims related to a guarantor or subordinate a subsidiary guarantee to all other debts of a subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the indebtedness evidenced by its subsidiary guarantee:

intended to hinder, delay or defraud any present or future creditor or received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness;

was insolvent or rendered insolvent by reason of such incurrence;

was engaged in a business or transaction for which the subsidiary guarantor's remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond the subsidiary guarantor's ability to pay such debts as they mature. In addition, a court could void any payment by a subsidiary guarantor pursuant to the notes or a subsidiary guarantee and require that payment to be returned to such subsidiary guarantor or to



## **Table of Contents**

a fund for the benefit of the creditors of the subsidiary guarantor. The measures of insolvency for purposes of fraudulent transfer laws will vary depending upon the governing law in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a subsidiary guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that we will not be insolvent, will not have insufficient capital for the business in which we are engaged and will not have incurred debts beyond our ability to pay such debts as they mature. There can be no assurance, however, as to what standard a court would apply in making such determinations or that a court would agree with our or any subsidiary guarantors' conclusions in this regard.

## **Risks related to our business**

***Reductions or changes in reimbursement from government or third-party payors and other regulatory changes affecting our industry could adversely affect our operating results.***

We derive a substantial portion of our net operating revenues from the Medicare and Medicaid programs. See Item 1, *Business*, *Sources of Revenues*, in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, for a table identifying the sources and relative payor mix of our revenues. Historically, Congress and some state legislatures have periodically proposed significant changes in regulations governing the healthcare system. Many of these changes have resulted in limitations on and, in some cases, significant reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. For the period from April 1, 2008 through September 30, 2009, the 2007 Medicare Act reduced the Medicare reimbursement levels for inpatient rehabilitation hospitals to the levels existing in the third quarter of 2007. There can be no assurance that future governmental initiatives, including some proposals currently under consideration by Congress, would not result in pricing roll-backs or freezes. If we are not able to maintain increased case volumes to offset any future pricing roll-back or freeze, our operating results could be adversely affected. Our results could be further adversely affected by other changes in laws or regulations governing the Medicare and Medicaid programs, as well as possible changes to or expansion of the audit processes conducted by Medicare contractors or Medicare recovery audit contractors. For a discussion of the factors affecting reimbursement for our services, see Item 1, *Business*, *Sources of Revenues* *Medicare Reimbursement* in our Annual Report on Form 10-K for the year ended December 31, 2008, and the section entitled *Executive Overview* *Key Challenges* *Potential Impact of Healthcare Reform* in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, each of which is incorporated by reference herein.

In addition, there are increasing pressures from many third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. Our relationships with managed care and non-governmental third-party payors, such as health

## **Table of Contents**

maintenance organizations and preferred provider organizations, are generally governed by negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. We could be adversely affected in some of the markets where we operate if we are unable to negotiate and maintain favorable agreements with third-party payors.

Additionally, our third-party payors may, from time to time, request audits of the amounts paid to us under our agreements with them. We could be adversely affected in some of the markets where we operate if the audits uncover substantial overpayments made to us.

*Uncertainty in the global credit markets could adversely affect our business and financial condition by making it more challenging for us to carry out our deleveraging and development objectives.*

The global credit markets experienced significant disruptions in 2008, and economic conditions have remained volatile throughout 2009, resulting in very sensitive credit markets. Future market shocks could result in reductions in the availability of certain types of debt financing, including access to revolving lines of credit. Future business needs combined with market conditions at the time may cause us to seek alternative sources of potentially less attractive financing and may require us to adjust our business plan accordingly.

One risk related to credit market uncertainty is the possibility that a rapid increase in interest rates or a downturn in operating earnings could impair our ability to comply with the financial covenants contained within our Credit Agreement. Loans under our Credit Agreement bear interest at a rate of, at our option, 1-month, 2-month, 3-month, or 6-month LIBOR or the Prime rate, plus an applicable margin that varies depending upon our leverage ratio and corporate credit rating. Our primary covenants include a leverage ratio and an interest coverage ratio, with the interest coverage ratio being a four consecutive fiscal quarters test. A default due to violation of the covenants contained within our Credit Agreement could require us to immediately repay all amounts then outstanding under the Credit Agreement. Based on the current borrowing capacity and leverage ratio required under our Credit Agreement, we do not believe there is significant risk in our ability to make additional draws under our revolving credit facility, if needed.

As a result of credit market uncertainty, we also face potential exposure to counterparties who may be unable to adequately service our needs, including the ability of the lenders under our Credit Agreement to provide liquidity when needed. We monitor the financial strength of our depositories, creditors, derivative counterparties, and insurance carriers using publicly available information, as well as qualitative service experience inputs. We are generally confident that we will have access to our revolving credit facility.

We do not face substantial near-term refinancing risk. After giving effect to the offering of the notes and the application of the proceeds therefrom, as described in Use of Proceeds, the majority of our bonds that we expect to be outstanding will not mature until 2016, and \$300.0 million of the outstanding principal amount of one tranche of our Term Loan Facility (as defined in Note 8, *Long-term Debt*, to the consolidated financial statements contained in our Recast 8-K, incorporated by reference herein) does not expire until 2015. Our revolving credit facility does not expire until 2012, and the other outstanding tranche under our Term Loan Facility, under which there is \$453.2 million principal amount outstanding, matures in 2013.

## **Table of Contents**

While our variable interest payments increase or decrease in accordance with changes in interest rates, the vast majority of the variation in these payments will be offset by net settlement payments or receipts on our interest rate swap that is not designated as a hedge. Therefore, our cash position is generally protected from such changes. Net settlement payments or receipts on this interest rate swap are included in the line entitled Loss on interest rate swap in our consolidated statements of operations.

***The adoption of more restrictive Medicare coverage policies at the national or local levels could have an adverse impact on our ability to obtain Medicare reimbursement for inpatient rehabilitation services.***

Medicare providers also can be negatively affected by the adoption of coverage policies, either at the national or local levels, describing whether an item or service is covered and under what clinical circumstances it is considered to be reasonable, necessary, and appropriate. In the absence of a national coverage determination, local Medicare contractors may specify more restrictive criteria than otherwise would apply nationally. The Centers for Medicare and Medicaid Services is implementing new inpatient rehabilitation hospital coverage criteria effective January 1, 2010 that will require existing local coverage policies to be updated for each Medicare contractor. We cannot predict how the adoption of modified local coverage determinations or other policies will affect us. For a discussion of the new inpatient rehabilitation hospital coverage criteria effective January 1, 2010 see the section entitled Executive Overview Key Challenges Highly Regulated Industry in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, which is incorporated by reference herein.

***Competition for staffing may increase our labor costs and reduce profitability.***

Our operations are dependent on the efforts, abilities, and experience of our management and medical support personnel, such as physical therapists, nurses, and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified management and support personnel responsible for the daily operations of each of our hospitals. In some markets, the lack of availability of physical therapists, nurses, and other medical support personnel has become a significant operating issue to healthcare providers. This shortage may require us to continue to enhance wages and benefits to recruit and retain qualified personnel or to hire more expensive temporary personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. If our labor costs increase, we may not be able to raise rates to offset these increased costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased labor costs is limited. Our failure to recruit and retain qualified management, physical therapists, nurses, and other medical support personnel, or to control our labor costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

***If we fail to comply with the extensive laws and government regulations applicable to healthcare providers, we could suffer penalties or be required to make significant changes to our operations.***

As a healthcare provider, we are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

licensure, certification, and accreditation,

coding and billing for services,

**Table of Contents**

requirements of the 60% compliance threshold under the 2007 Medicare Act,

relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws,

quality of medical care,

use and maintenance of medical supplies and equipment,

maintenance and security of medical records,

acquisition and dispensing of pharmaceuticals and controlled substances, and

disposal of medical and hazardous waste.

In the future, changes in these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our investment structure, hospitals, equipment, personnel, services, capital expenditure programs, operating procedures, and contractual arrangements.

Although we have invested substantial time, effort, and expense in implementing internal controls and procedures designed to ensure regulatory compliance, if we fail to comply with applicable laws and regulations, we could be subjected to liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of our licenses to operate one or more of our hospitals, and (3) exclusion or suspension of one or more of our hospitals from participation in the Medicare, Medicaid, and other federal and state healthcare programs. Substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

***Our hospitals face national, regional, and local competition for patients from other healthcare providers.***

We operate in a highly competitive industry. Although we are the nation's largest provider of inpatient rehabilitative healthcare services, in any particular market we may encounter competition from local or national entities with longer operating histories or other competitive advantages. There can be no assurance that this competition, or other competition which we may encounter in the future, will not adversely affect our business, financial position, results of operations, or cash flows. In addition, weakening certificate of need laws in some states could potentially increase competition in those states.

***We remain a defendant in a number of lawsuits, and may be subject to liability under qui tam cases, the outcome of which could have a material adverse effect on us.***

Although we have settled the major litigation pending against us, we remain a defendant in a number of lawsuits and the material lawsuits are discussed in Note 21, *Contingencies and Other Commitments*, to the consolidated financial statements contained in our Recast 8-K, and Note 12, *Contingencies*, to the consolidated financial statements contained in our Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2009, each of which is incorporated by reference herein. Substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

**Table of Contents**

***If we fail to comply with our Corporate Integrity Agreement, or if the HHS-OIG determines we have violated federal laws governing kickbacks, false claims and self-referrals, we could be subject to severe sanctions, including substantial civil money penalties.***

In December 2004, we entered into a Corporate Integrity Agreement (the "CIA") with the Office of Inspector General of the United States Department of Health and Human Services (the "HHS-OIG") to promote our compliance with the requirements of Medicare, Medicaid, and all other federal healthcare programs. We have also entered into two addendums to this agreement. The CIA expires at the end of 2009, subject to the HHS-OIG accepting and approving our annual report for 2009 that we will submit in the first half of 2010. Under the agreement and addendums, we are subject to certain administrative requirements and are subject to review of certain Medicare cost reports and reimbursement claims by an Independent Review Organization (see Note 20, *Settlements*, to the consolidated financial statements contained in our Recast 8-K). Our failure to comply with the material terms of the CIA could lead to suspension or exclusion from further participation in federal healthcare programs, including Medicare and Medicaid, which currently account for a substantial portion of our revenues. Further, if the HHS-OIG determines that we have violated the anti-kickback laws, the False Claims Act or the federal Stark statute's general prohibition on physician self-referrals, we may be subject to significant civil monetary penalties, and may be excluded from further participation in federal healthcare programs. Any of these sanctions would have a material adverse effect on our business, financial position, results of operations, and cash flows.

**Table of Contents**

## **Use of proceeds**

We intend to use the net proceeds from the sale of the notes, together with cash on hand, to (i) pay the consideration required in connection with our tender offer and consent solicitation for any and all of our outstanding 2014 Notes, including the payment of any applicable accrued and unpaid interest on such notes, and (ii) redeem any 2014 Notes that may remain outstanding following completion of the tender offer, including the payment of any applicable accrued and unpaid interest on such notes. As of September 30, 2009, \$329.6 million aggregate principal amount of the 2014 Notes was outstanding, bearing interest at a rate of 7.2175% per annum. While the 2014 Notes mature on June 15, 2014, we have the option to prepay the aggregate principal amount of such notes, together with any accrued and unpaid interest on such notes, at any time, in whole or in part, at a redemption price that is currently 103.00% of their principal amount.

S-17

**Table of Contents****Capitalization**

The table below sets forth the following information:

our actual cash and cash equivalents and capitalization as of September 30, 2009; and

our cash and cash equivalents and capitalization, as adjusted to reflect the offering of the notes and the use of proceeds therefrom. You should read the information in this table together with our consolidated financial statements and the related notes in our Quarterly Report on Form 10-Q for the period ended September 30, 2009, which is incorporated herein by reference.

<b>(In millions, except share data)</b>	<b>As of September 30, 2009</b>	
	<b>Actual</b>	<b>As adjusted</b>
<b>Cash and cash equivalents</b>	\$ 117.3	\$ 60.5
<b>Senior secured debt</b>		
Revolving Credit Facility	\$	\$
Term Loan Facility (1)	753.2	753.2
Capital Lease Obligations	104.9	104.9
	858.1	