

HEALTHSOUTH CORP
Form 424B5
June 24, 2008

The **Subject to completion, dated June 23, 2008**

information
contained in
this
preliminary
prospectus
supplement is
not complete
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not an offer to
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where the offer
or sale is not
permitted.

PROSPECTUS SUPPLEMENT

(To Prospectus dated June 23, 2008)

HEALTHSOUTH

8,800,000 Shares

HEALTHSOUTH CORPORATION

Common Stock

We are offering 8,800,000 shares of common stock to be sold in this offering.

Our common stock is listed on the New York Stock Exchange under the symbol "HLS." The last reported sale price on the New York Stock Exchange of the common stock on June 20, 2008 was \$18.48 per share.

See "Risk Factors" beginning on page S-2 of this prospectus supplement and on page 3 of the accompanying prospectus to read about factors you should consider before buying shares of common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to us (before expenses)	\$	\$

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

Page

<u>ABOUT THIS PROSPECTUS SUPPLEMENT</u>	1
<u>RISK FACTORS</u>	2
<u>USE OF PROCEEDS</u>	2
<u>THE OFFERING</u>	3
<u>PRICE RANGE OF COMMON STOCK</u>	3
<u>DIVIDEND POLICY</u>	4
<u>UNDERWRITING</u>	5
<u>LEGAL MATTERS</u>	6
<u>EXPERTS</u>	7
PROSPECTUS	

Page

ABOUT THIS PROSPECTUS	1
FORWARD-LOOKING STATEMENTS	2
RISK FACTORS	3
THE COMPANY	4
USE OF PROCEEDS	5
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	6
DESCRIPTION OF CAPITAL STOCK	7
DESCRIPTION OF WARRANTS	9
PLAN OF DISTRIBUTION	10
WHERE YOU CAN FIND MORE INFORMATION	13
INCORPORATION OF CERTAIN INFORMATION BY REFERENCE	14
LEGAL MATTERS	15
EXPERTS	15

[Do not delete - this paragraph generates the automatic page number]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.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock. The second part is the accompanying prospectus, which provides more general information. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. This prospectus supplement contains information about the common stock offered in this offering and may add, update or change information in the accompanying prospectus. Before you invest in our common stock you should carefully read this prospectus supplement along with the accompanying prospectus, in addition to the information contained in the documents we refer to under the heading “Where You Can Find More Information” in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus supplement and the accompanying prospectus is accurate only as of the date on its cover page and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial position, results of operations and prospects may have changed since such dates.

RISK FACTORS

We urge you to carefully consider the risks described below, the risks beginning on page 3 of the accompanying prospectus and the risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as well as the other information we have provided in this prospectus supplement, the accompanying prospectus, and the documents we incorporate by reference, before reaching a decision regarding an investment in our common stock.

Risks Related to this Offering and Our Common Stock

The price of our common stock historically has experienced significant price and volume fluctuations, which may make it difficult for you to resell the common stock.

The market price of our common stock historically has experienced and may continue to experience significant price and volume fluctuations similar to those experienced by the broader stock market in recent years. In addition, the price of our common stock may fluctuate significantly in response to various factors, including, but not limited to: (1) variations in annual or quarterly financial results; (2) changes by financial research analysts in their estimates of our earnings or the earnings of our competitors; and (3) conditions in the economy in general or the healthcare industry in particular, including increased competitive pressures and dependence on, and pricing pressures from, the industry and its customers.

Significant sales of common stock, or the perception that significant sales may occur in the future, could adversely affect the market price for our common stock and may significantly dilute stockholder value.

The sale of substantial amounts of our common stock could adversely affect its price. We are required to issue approximately 5.0 million shares of common stock and warrants to purchase approximately 8.2 million shares of common stock pursuant to our agreement to settle litigation filed against us, certain of our former directors and officers and certain other parties relating to financial reporting and related activity that occurred at HealthSouth during periods ended in March 2003. Distribution of the common stock and warrants to purchase shares of common stock cannot occur until the order related to this settlement becomes a final, non-appealable order. At this time, an appeal is outstanding with the Eleventh Circuit Court of Appeals. We cannot predict when, or if, the order will become final and non-appealable. You should review the information in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 which we are incorporating herein by reference for additional information regarding the litigation and related settlement. The availability of a large block of stock for sale in relation to our normal trading volume could result in a decline in the market price of our common stock and may have a dilutive effect on our existing stockholders.

USE OF PROCEEDS

We expect the net proceeds from this offering to be approximately \$ million, after deducting underwriting discounts and commissions and the estimated expenses of the offering. Under the terms of our Credit Agreement (as defined in our Form 10-K for the year ended December 31, 2007), we are required to use 25% of the net proceeds from this offering to repay borrowings under our Term Loan Facility (as also defined in our Form 10-K for the year ended December 31, 2007). Our Term Loan Facility, which matures in March 2013, bears interest at a rate of LIBOR plus 2.5%. We also intend to retire approximately \$30.3 million of 10.750% Senior Subordinated Notes due to mature on October 1, 2008. The remainder of the net proceeds will be used for general corporate purposes including redemption and repayment of other short- and long-term borrowings, acquisitions of, or investments in, businesses or assets, capital expenditures and working capital. Pending the application of the net proceeds, we may temporarily invest the net proceeds in short-term marketable securities.

THE OFFERING

Common stock we are offering	8,800,000
Common stock outstanding after this offering	87,974,141 ¹

1. Excludes approximately 13.4 million potential shares of common stock, including dilutive stock options, restricted stock awards, restricted stock units, and convertible perpetual preferred stock. Approximately 13.1 million of the potential shares relates to the Company's convertible perpetual preferred stock.

In addition to these potential shares, there are also options to purchase approximately 2.5 million shares of the Company's common stock outstanding that are not included in the above potential shares amount because these shares are antidilutive.

In connection with the repayment of certain loan amounts in January 2004, the Company issued warrants to the applicable lender to purchase two million shares of the Company's common stock. Each warrant has a term of ten years from the date of issuance and an exercise price of \$32.50 per share. The warrants are not included in the above number of potential shares because they are currently antidilutive.

In September 2006, the Company agreed to issue approximately 5.0 million shares of common stock and warrants to purchase approximately 8.2 million shares of common stock to settle its class action securities litigation. This agreement received final court approval on January 11, 2007. These shares of common stock and warrants are not included in any amounts presented, currently outstanding or potential shares, as distribution of these shares and warrants cannot occur until the order underlying the securities litigation becomes a final, non-appealable order. At this time, an appeal is outstanding with the Eleventh Circuit Court of Appeals.

PRICE RANGE OF COMMON STOCK

On March 19, 2003, after the United States Securities and Exchange Commission issued an Order of Suspension of Trading, the New York Stock Exchange ("NYSE") suspended trading in our common stock, which was then listed under the symbol HRC. That same day, Standard & Poor's announced that it removed our common stock from the S&P 500 Index. The NYSE continued the trading halt and eventually delisted our common stock. On March 25, 2003, immediately following the delisting from the NYSE, our stock began trading in the over-the-counter "Pink Sheets" market under the symbol HLSH. On August 14, 2006, we announced we had been cleared to submit an application for the listing of our common stock on the NYSE. Shares of our common stock began trading on the NYSE on October 26, 2006, under the symbol "HLS."

The following table sets forth the high and low bid quotations per share of our common stock as reported on the over-the-counter market from January 1, 2006 through October 25, 2006, as well as the high and low sales prices per share for our common stock as reported on the NYSE from October 26, 2006 until the date indicated below. The stock price information is based on published financial sources. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commissions, and may not necessarily represent actual transactions. All quotations per share have been adjusted to reflect the reverse stock split that became effective on October 25, 2006.

	Market	High	Low
2006			
First Quarter	OTC	\$ 26.25	\$ 22.50
Second Quarter	OTC	24.60	21.50

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Third Quarter	OTC	25.05	17.50
Fourth Quarter (through October 25, 2006)	OTC	26.65	24.10
Fourth Quarter (from October 26 through December 31, 2006)	NYSE	26.25	19.80

2007

First Quarter	NYSE	\$ 25.89	\$ 20.51
Second Quarter	NYSE	21.70	16.59
Third Quarter	NYSE	19.33	14.84
Fourth Quarter	NYSE	23.02	17.03

2008

First Quarter	NYSE	\$ 21.70	\$ 15.20
Second Quarter (through June 20, 2008)	NYSE	20.20	17.80

The foregoing table shows only historical comparisons. These comparisons may not provide meaningful information to you in determining whether to purchase shares of our common stock. You are urged to obtain current market quotations for our common stock and to review carefully the other information contained in this prospectus supplement or incorporated by reference into the accompanying prospectus.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently expect to retain future earnings, if any, to finance the growth and development of our business and reduce debt, and do not anticipate paying any cash dividends in the foreseeable future. The terms of our Credit Agreement place restrictions on our ability to pay dividends. However, our 6.50% Series A Convertible Perpetual Preferred Stock generally provides for the payment of cash dividends subject to certain limitations.

UNDERWRITING

HealthSouth Corporation and J.P. Morgan Securities Inc., who we refer to herein as the underwriter, have entered into an underwriting agreement with respect to the shares of common stock being offered. Subject to certain conditions, the underwriter has agreed to purchase all of the shares being offered hereby.

The underwriting agreement provides that the obligation of the underwriter to purchase the shares of common stock included in this offering is subject to approval of legal matters by counsel and to other conditions. The underwriter is committed to take and pay for all of the shares being offered, if any are taken.

The underwriter proposes to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and to selected dealers at such offering price less a selling concession not to exceed \$ per share of the principal amount of the shares. After the initial offering of the shares to the public, the underwriter may change the public offering price.

We and all of our directors and each member of our executive management team have agreed that, for a period of 90 days from the date of this prospectus supplement, we and they will not, without the prior written consent of the underwriter, dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock, subject to certain exceptions. The underwriter in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

In connection with the offering, the underwriter may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriter of a greater number of shares than it is required to purchase in the offering. Stabilizing transactions consist of certain bids for or purchases of common stock made by an underwriter in the open market prior to the completion of the offering.

The underwriter may also impose a penalty bid. This occurs when a broker or dealer repays to the underwriter a portion of the underwriting discount or commission received by it because the underwriter has repurchased shares sold by or for the account of such broker or dealer in short covering transactions.

Any of these activities, as well as other purchases by the underwriter for its own account, may have the effect of preventing or regarding a decline in the market price of the shares of common stock and may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

The underwriter and its affiliates have performed investment banking, commercial banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriter may, from time to time in the future, engage in transactions with and perform services for us in the ordinary course of its business. We intend to use a portion of the combined net proceeds of this offering to, among other things, repay a portion of our outstanding indebtedness under our existing credit agreements. JPMorgan Chase Bank, N.A., an affiliate of the underwriter, is a lender, an administrative agent and a collateral agent under the existing credit agreements and, accordingly, may receive a portion of the net proceeds of this offering.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act.

Other than in the United States, no action has been taken by us or the underwriter that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such

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securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling with Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), from and including the date on which the European Union Prospectus Directive (the "EU Prospectus Directive") is implemented in that Relevant Member State (the "Relevant Implementation Date") an offer of securities described in this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive) subject to obtaining the prior consent of the book-running manager for any such offer; or
- in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression EU Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

LEGAL MATTERS

Certain legal matters in connection with the common stock offered under this prospectus supplement will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain legal matters in connection with the common stock offered under this prospectus supplement will be passed upon for the underwriter by Cravath, Swaine & Moore LLP.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in the accompanying prospectus by reference to HealthSouth Corporation's Annual Report on Form 10-K for the year ended December 31, 2007 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

7

Prospectus

HEALTHSOUTH CORPORATION

Common Stock

Preferred Stock

Warrants

The following are types of securities that we may offer, issue and sell from time to time, together or separately:

- shares of our common stock;
- shares of our preferred stock, which may be convertible or exchangeable; and
- warrants to purchase common stock or preferred stock.

We may offer these securities in amounts, at prices and on terms determined at the time of offering. We may sell these securities directly to you, through agents we select, or through underwriters and dealers we select. If we use agents, underwriters or dealers to sell these securities, we will name them and describe their compensation in a prospectus supplement.

This prospectus describes some of the general terms that may apply to these securities. The specific terms of any securities to be offered will be described in a supplement to this prospectus. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement, together with additional information described under the heading "Where You Can Find More Information," before you make your investment decision. Our common stock is listed on the New York Stock Exchange under the symbol "HLS."

This prospectus may not be used to sell securities unless accompanied by a prospectus supplement.

Investing in our securities involves a high degree of risk. You should carefully consider the risk factors incorporated herein by reference and described under the heading "Risk Factors" beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 23, 2008

TABLE OF CONTENTS

Page

<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>Ratio of 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>Plan of Distribution</u>	10
<u>Where You Can Find More Information</u>	13
<u>Incorporation of Certain Information by Reference</u>	14
<u>Legal Matters</u>	15
<u>Experts</u>	15

ABOUT THIS PROSPECTUS

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

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") using a "shelf" registration process. Under this shelf registration process, we may, from time to time, sell the securities described in this prospectus in one or more transactions. This prospectus provides a general description of the securities that may be sold by us. Each time we sell securities described in this prospectus, we are required to provide you with this prospectus and a prospectus supplement containing specific information about us and the terms of the securities being sold. Any prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information."

You should rely only on the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus and any accompanying prospectus supplement is accurate as of the date of the prospectus and any accompanying prospectus supplement. Our business, financial position, results of operations and prospects may have changed since that date.

FORWARD-LOOKING STATEMENTS

This prospectus 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 "continue" 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 3 of this prospectus;
- 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 health care professionals in a highly competitive environment with often severe staffing shortages;
- changes in the regulations of the health care industry at either or both of the federal and state levels;