CONTINENTAL MEDICAL SYSTEMS INC /DE/
Form 424B5
March 02, 2011
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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 are not an offer to sell these securities, nor a solicitation of an offer to buy these securities, in any jurisdiction where the offering is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 2, 2011

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated March 2, 2011)

$100,000,000

7.250% Senior Notes due 2018

7.750% Senior Notes due 2022

We are offering $50 million aggregate principal amount of our existing series of 7.250% senior notes due 2018 (the new 2018 notes) and $50 million aggregate principal amount of our existing series of 7.750% senior notes due 2022 (the new 2022 notes , and together with the new 2018 notes, the new notes). The new notes of each such series will be issued under the indenture pursuant to which, on October 7, 2010, we issued $275 million aggregate principal amount of our 7.250% senior notes due 2018 (the initial 2018 notes , and together with the new 2018 notes, the 2018 notes) and $250 million aggregate principal amount of our 7.750% senior notes due 2022 (the initial 2022 notes, and together with the new 2022 notes, the 2022 notes ; the initial 2022 notes, together with the initial 2018 notes, the initial notes ; and the initial notes, together with the new notes, the notes). The new notes of a series will have the same terms (other than issue date and public offering price) as the initial notes of such series and will rank *pari passu* with, and vote together with, the holders of the initial notes of such series on any matter submitted to the holders of such series. The new notes of a series will have the same CUSIP number and ISIN as the initial notes of such series and will be fungible with the initial notes of such series for trading purposes. We will pay interest on the 2018 notes semiannually in arrears on April 1 and October 1 of each year, beginning on April 1, 2011. We will pay interest on the 2022 notes semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2011. Interest on the notes began accruing on October 7, 2010. The 2018 notes will mature on October 1, 2018 and the 2022 notes will mature on September 15, 2022.

At any time on or after October 1, 2014, we may redeem some or all of the 2018 notes at specified redemption prices. At any time on or after September 15, 2015, we may redeem some or all of the 2022 notes at specified redemption prices. The redemption prices are discussed under the caption Description of Notes Optional Redemption. Prior to October 1, 2014, during any 12-month period, we may, at our option, redeem up to 10% of the aggregate principal amount of the 2018 notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. In addition, prior to September 15, 2015, during any 12-month period, we may, at our option, redeem up to 10% of the aggregate principal amount of the 2022 notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. At any time prior to October 1, 2014, we may at our option redeem all or a portion of the 2018 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. In addition, at any time prior to September 15, 2015, we may at our option redeem all or a portion of the 2022 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. Prior to October 1, 2013, we may redeem up to 35% of the aggregate principal amount of the 2018 notes from the proceeds of certain equity offerings at a redemption price of 107.25%, plus accrued and unpaid interest to the redemption date. In addition, prior to September 15, 2013, we may redeem up to 35% of the aggregate principal amount of the 2022 notes from the proceeds of certain equity offerings at a redemption price of 107.75%, plus accrued and unpaid interest 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 at 101% of the principal amount plus accrued and unpaid interest to the redemption date.

The notes are guaranteed by all of our existing and future subsidiaries that guarantee borrowings under our credit agreement and other capital markets debt. See Description of Notes Guarantees. The notes and the guarantees are senior unsecured obligations of HealthSouth Corporation and our subsidiary guarantors that guarantee borrowings under our credit agreement and other capital markets debt. The notes 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 credit agreement, to the extent of the value of the assets securing such debt. In addition, the notes and the guarantees are structurally subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.

Investing in the notes involves risks. See Risk Factors beginning on page S-5.

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

	Per 2018 Note	Per 2022 Note	Total
Public Offering Price[1]	%	%	$
Underwriting Discount	%	%	$
Proceeds to HealthSouth Corporation (before expenses)[2]	%	%	$

(1) Plus accrued interest from and including October 7, 2010, to, but excluding, delivery date (totaling $ on the new 2018 notes and $ on the new 2022 notes). This amount must be paid by the purchasers of the notes.

(2) The proceeds to HealthSouth Corporation set forth above do not take into account offering expenses. The underwriters have agreed to reimburse us for a portion of our expenses in connection with the offering. See Underwriting.

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 March , 2011.

Joint Book-Running Managers

BofA Merrill Lynch **Barclays Capital** **Citi** **Goldman, Sachs & Co.** **Morgan Stanley**

Co-Managers

RBC Capital Markets **SunTrust Robinson Humphrey** **Wells Fargo Securities**

March , 2011

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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, or 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.

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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, among other things, future events, our business strategy, our financial plans, our future financial performance, our projected business results, or our projected capital expenditures. 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 o terminology. Such forward-looking statements are necessarily estimates or forecasts based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. Any forward-looking statement is based on information current as of the date of this prospectus supplement and speaks only as of the date on which such statement is made. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the following:

- each of the factors incorporated herein by reference and discussed under the heading Risk Factors, starting on page S-5 of this prospectus supplement;

- uncertainties and factors discussed elsewhere in this prospectus supplement, in our filings from time to time with the SEC, or in materials incorporated therein by reference;

- changes in the regulations of the healthcare industry at either or both of the federal and state levels, including those contemplated now and in the future as part of national healthcare reform, and related increases in the costs of complying with such changes;

- 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;

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

- our ability to successfully complete and integrate acquisitions, investments, and joint ventures consistent with our growth strategy, including the realization of anticipated revenues, cost savings, and productivity improvements arising from the related operations; 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.

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 this 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 December 31, 2010, we operated 97 inpatient rehabilitation hospitals (including three hospitals that operate as joint ventures which we account for using the equity method of accounting), six freestanding LTCHs, 32 outpatient rehabilitation satellite clinics (operated by our hospitals, including one joint venture satellite), and 25 licensed, hospital-based home health agencies. As of December 31, 2010, our inpatient rehabilitation hospitals and LTCHs had 6,745 licensed beds (excluding the three hospitals that have 234 licensed beds and operate as joint ventures which we account for using the equity method of accounting). In addition to HealthSouth hospitals, we manage four inpatient rehabilitation units through management contracts. While our national network of inpatient hospitals stretches across 26 states and Puerto Rico, our inpatient hospitals are concentrated in the eastern half of the United States and Texas.

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, high-quality, cost-effective patient care services. The majority of patients we serve experience significant physical disabilities due to medical conditions, such as strokes, hip fractures, head injuries, spinal cord injuries, and neurological disorders, that are generally non-discretionary in nature and require rehabilitative healthcare services in an inpatient setting. Our team of highly skilled nurses and physical, occupational, and speech therapists working with our physician partners utilize the latest in technology and clinical protocols with the objective of returning patients to home and work. Patient care is provided by nursing and therapy staff as directed by physician orders. Internal case managers monitor each patient s progress and provide documentation of patient status, achievement of goals, discharge planning, and functional outcomes. Our inpatient rehabilitation 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. 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.

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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.

Issuer	HealthSouth Corporation
Notes Offered	$50 million aggregate principal amount of 7.250% senior notes due 2018.
	$50 million aggregate principal amount of 7.750% senior notes due 2022.
	The new notes offered hereby are an additional issuance under the existing indentures under which we issued the relevant series of initial notes. The new notes of a series will have the same terms (other than issue date and public offering price) of such series, and will rank *pari passu* with the initial notes of such series. Holders of the new notes of a series will vote together with the holders of the initial notes of such series on any matter submitted to the holders of such series. The new notes of a series will have the same CUSIP number and ISIN as the initial notes of such series and will be fungible with the initial notes of such series for trading purposes.
Maturity	October 1, 2018, in the case of the 2018 notes.
	September 15, 2022, in the case of the 2022 notes.
Interest Payment Dates	April 1 and October 1 of each year, beginning on April 1, 2011 for the 2018 notes.
	March 15 and September 15 of each year, beginning on March 15, 2011, for the 2022 notes.
Guarantees	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 and other capital markets debt. However, certain of our subsidiaries will not guarantee the notes. For the year ended December 31, 2010, the non-guarantor subsidiaries represented in the aggregate approximately 28.5% of our consolidated net operating revenues and approximately 22.1% of our Adjusted EBITDA. As of December 31, 2010, the non-guarantor subsidiaries held approximately 22.7% 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 indentures governing the notes. The notes are structurally subordinated to the indebtedness and other liabilities of our non-guarantor subsidiaries.

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Ranking	The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our guarantor subsidiaries. The notes 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 are 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 are structurally subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.
Optional Redemption of 2018 Notes	At any time on or after October 1, 2014, we may redeem some or all of the 2018 notes at the redemption prices specified in this prospectus supplement under Description of Notes Optional Redemption. Prior to October 1, 2014, during any 12-month period, we may at our option redeem up to 10% of the aggregate principal amount of the 2018 notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. Prior to October 1, 2014, we may also redeem some or all of the 2018 notes at a redemption price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a make-whole premium.
	At any time prior to October 1, 2013, we may redeem up to 35% of the aggregate principal amount of the 2018 notes in an amount not to exceed the amount of proceeds of one or more equity offerings, at a price equal to 107.25% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, *provided* that at least 65% of the aggregate principal amount of the 2018 notes issued (including the new 2018 notes) remains outstanding after the redemption.
Optional Redemption of 2022 Notes	At any time on or after September 15, 2015, we may redeem some or all of the 2022 notes at the redemption prices specified in this prospectus supplement under Description of Notes Optional Redemption. Prior to September 15, 2015, during any 12-month period, we may at our option redeem up to 10% of the aggregate principal amount of the 2022 notes at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. Prior to September 15, 2015, we may also redeem some or all of the 2022 notes at a redemption price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date plus a make-whole premium.
	At any time prior to September 15, 2013, we may redeem up to 35% of the aggregate principal amount of the 2022 notes in an amount not to exceed the amount of proceeds of one or more equity offerings, at a price equal to 107.75% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, *provided* that at

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	least 65% of the aggregate principal amount of the 2022 notes (including the new 2022 notes) issued remains outstanding after the redemption.
Change of Control	Upon the occurrence of a change of control, as defined in the indentures, 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 indentures governing the notes contain 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.
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 up to $45.0 million of the net proceeds from this offering to repay a portion of the amounts outstanding under the revolving credit facility under our credit agreement. We intend to use the balance of the net proceeds to redeem a portion of our 10.75% Senior Notes due 2016 on or before their initial June 15, 2011 call date.

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-5 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.

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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, 2010 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, you should carefully consider these risks as well as other information related to the risk factors contained in other sections of our Annual Report on Form 10-K for the year ended December 31, 2010, which are incorporated herein by reference. 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 leverage or level of indebtedness may have negative consequences for our business, and we may incur additional indebtedness in the future.

As of December 31, 2010, we had approximately $1.4 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding $89.1 million in capital leases). Subject to specified limitations, our credit agreement and the indentures governing our senior notes permit us and our subsidiaries to incur material additional debt. If new debt is added to our current debt levels, the risks described here could intensify.

Our indebtedness could have important consequences, 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 competing providers that have less debt; and
- exposing us to risks inherent in interest rate fluctuations if we draw upon our variable rate revolving credit facility, 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. We are also subject to numerous contingent liabilities, to prevailing economic conditions, and to financial, business, and other factors beyond our control. 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 indentures governing the notes and our 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 additional financing could be obtained. A return to 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 under our debt instruments, including the notes.

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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 indentures governing the notes, the indentures governing our 10.75% senior notes due 2016 and our 8.125% senior notes due 2020 (we refer to our 10.75% senior notes due 2016 and our 8.125% senior notes due 2020 together as our existing senior notes) and our credit agreement permit us and our subsidiaries to incur material additional debt. See Description of Our Credit Agreement for a description of the terms of our credit agreement. 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 and the indentures governing our senior notes may affect our ability to execute aspects of our business plan successfully.

The terms of our credit agreement and the indentures governing our senior notes 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 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 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. Although we remained in compliance with the financial ratios and financial condition tests as of December 31, 2010, we cannot assure you we will continue to do so. 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. A severe downturn in earnings or, if we have outstanding borrowings under our revolver at the time, a rapid increase in interest rates could impair our ability to comply with those financial ratios and financial condition tests and we may need to obtain waivers from the required proportion of the lenders to avoid being in default. If we try to obtain a waiver or other relief from the required lenders, we may not be able to obtain it or such relief might have a material cost to us or be on terms less favorable than those in our existing debt. If a default occurs, the lenders could exercise their rights, including declaring all the funds borrowed (together with accrued and unpaid interest) to be immediately due and payable, terminating their commitments or instituting foreclosure proceedings against our assets, which, in turn, could cause the default and acceleration of the maturity of our other indebtedness. A breach of any other restrictive covenants contained in our credit agreement or the indentures governing our senior notes would also (after giving effect to applicable grace periods, if any) result in an event of default with the same outcome.

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As of December 31, 2010, approximately 77.3% of our consolidated property and equipment, net held by us and our guarantor subsidiaries was pledged to the lenders under our credit agreement. See Description of Our Credit Agreement.

The notes and the guarantees will not be secured by any of our assets. Our credit agreement is secured and our senior secured lenders have a prior claim on substantially all of our assets. The notes and guarantees are effectively subordinated to secured debt to the extent of the value of the assets securing such debt.

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). See Description of Our Credit Agreement. 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 documents 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. See Note 8, *Long-term Debt*, to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2010, and Item 2, *Properties*, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and Description of Notes Certain Covenants in this prospectus supplement for additional information.

As of December 31, 2010, we had $78.0 million of senior secured indebtedness (excluding $89.1 million of capital lease obligations and $45.6 million utilized under the letter of credit subfacility) and $376.4 million of available borrowing capacity under the revolving credit facility under our credit agreement. Assuming this offering and the application of the net proceeds therefrom had been completed on December 31, 2010, as of that date we would have had $33 million of outstanding senior secured indebtedness (excluding $89.1 million of capital lease obligations and $45.6 million utilized under the letter of credit subfacility) and $421.4 million of available borrowing capacity under the revolving portion of our credit agreement. See Description of Our Credit Agreement. We will be permitted to borrow substantial additional secured indebtedness in the future under the terms of the indentures. See Description of Notes Certain Covenants Limitation on Indebtedness, Description of Notes Certain Covenants Limitation on Liens, and Description of Our Credit Agreement.

Not all of our subsidiaries will be guarantors under the indentures governing the notes. The notes are structurally subordinated 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 and other capital markets debt. Certain of our 100% owned subsidiaries and all of our non-wholly owned subsidiaries, 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. These non-guarantor subsidiaries do not guarantee borrowings under our credit agreement. The notes are structurally subordinated to the outstanding indebtedness and other liabilities, including trade payables, of our non-guarantor subsidiaries. Assuming we had completed this offering on December 31, 2010, these notes would have been structurally subordinated to approximately $178.5 million of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our non-guarantor subsidiaries.

For the year ended December 31, 2010, the non-guarantor subsidiaries represented in the aggregate approximately 28.5% of our consolidated net operating revenues and approximately 22.1% of our Adjusted EBITDA. As of December 31, 2010, the non-guarantor subsidiaries held approximately 22.7% 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 our credit agreement have the discretion to release the guarantors under the credit agreement under certain circumstances, which will cause those guarantors to be released from their guarantees of the notes if they are not guaranteeing any capital markets debt.

The lenders under our credit agreement have the discretion to release the guarantees under the credit agreement under certain circumstances. 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 indentures governing the notes, if the related guarantor is no longer a guarantor of obligations under the credit agreement and is not then a guarantor or obligor of any capital markets indebtedness in addition to the notes offered hereby. See Description of Notes Guarantees. 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 be structurally senior to claims of any holder of the notes.

We may not have the funds to purchase the notes and the existing senior notes upon a change of control offer as required by the indentures governing the notes and the indentures governing our existing senior notes.

Upon a change of control, as defined in the indentures governing the notes, 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 indentures governing our existing senior notes also require us to offer to repurchase all our outstanding existing senior notes at 101% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the date of repurchase, in the event of a change of control. The source of funds for that purchase of notes and existing senior 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 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 and existing senior notes tendered. In addition, the terms of our credit agreement limit our ability to repurchase your notes and the existing senior notes, and provide that certain change of control events constitute an event of default thereunder. Our future debt agreements may contain similar restrictions and provisions. If the holders of the notes or the existing senior notes exercise their right to require us to repurchase all the notes or existing senior 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, our existing senior notes and our other debt, or that restrictions in our credit agreement and the indentures governing the notes and the indentures governing our existing senior notes 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 indentures. 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 established trading market for the notes. We cannot assure you that an active trading market will develop or be maintained 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

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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 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 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 a fund for the benefit of the creditors of the 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 at a time when it:
  - 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.

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.

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.

Each subsidiary guarantee contains a provision intended to limit such guarantor s liability to the maximum amount that it could guarantee without causing the incurrence of the obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect subsidiary guarantees from being voided under applicable fraudulent transfer or conveyance laws or may reduce the guarantor s obligation to an amount that effectively makes the subsidiary guarantee worthless. In a Florida bankruptcy case, a court noted in *dicta* that such savings clauses may be ineffective to protect the guarantees.

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Risks Related to Our Business

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

We derive a substantial portion of our net operating revenues from the Medicare program. See Item 1, *Business*, Sources of Revenues in our Annual Report on Form 10-K for the year ended December 31, 2010 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 the increases in and, in some cases, significant roll-backs or reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. On July 22, 2010, the Centers for Medicare and Medicaid Services (CMS) published in the federal register its fiscal year 2011 final rule for inpatient rehabilitation facilities under the prospective payment system. This rule will be effective for Medicare discharges between October 1, 2010 and September 30, 2011. In this rule, CMS established that aggregate Medicare payments to inpatient rehabilitation facilities for fiscal year 2011 would increase by approximately 2.15%, which reflects a 2.5% market basket increase reduced by 0.25% as mandated by the new healthcare reform law described below for fiscal year 2011 together with an approximate 0.1% overall decrease in rehabilitation outlier payments. Effective October 1, 2011, market basket increases for inpatient rehabilitation hospitals will also be reduced by an annual productivity adjustment. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the PPACA) and the Health Care and Education Reconciliation Act of 2010, which amended the PPACA (together, the 2010 Healthcare Reform Laws). The 2010 Healthcare Reform Laws could have a material impact on our business. We believe the issues with the greatest potential impact are: (1) reducing annual market basket updates to providers, which include annual productivity adjustments (reductions), (2) the possible combining, or bundling, of reimbursement for a Medicare beneficiary s episode of care at some point in the future, (3) implementing a voluntary program for accountable care organizations (ACOs), (4) creating an Independent Payment Advisory Board, and (5) modifying employer-sponsored healthcare insurance plans. For further discussion of the 2010 Healthcare Reform Laws, see Item 1, *Business*, Healthcare Reform in our Annual Report on Form 10-K for the year ended December 31, 2010.

The 2010 Healthcare Reform Laws included other provisions that could affect us as well. They include the expansion of the federal Anti-Kickback Law and the False Claims Act that, when combined with other recent federal initiatives, are likely to increase investigation and enforcement efforts in the healthcare industry generally. Changes include increased resources for enforcement, lowered burden of proof for the government in healthcare fraud matters, expanded definition of claims under the False Claims Act, enhanced penalties, and increased rewards for relators in successful prosecutions. The 2010 Healthcare Reform Laws also require the establishment of new mandatory quality data reporting programs for inpatient rehabilitation facilities and long-term acute care hospitals to take effect for fiscal year 2014. CMS is required to select and publish quality measures for these providers by October 1, 2012. Under these programs, a provider that fails to report on the selected quality measures will have its annual payment update factor reduced by 2% for the applicable fiscal year. We will closely monitor the development of these yet-to-be-determined quality reporting requirements, and we intend to be in full compliance with them. For additional discussion of general healthcare regulation, see Item 1, *Business*, Healthcare Reform and Regulation in our Annual Report on Form 10-K for the year ended December 31, 2010.

Some states in which we operate have also undertaken, or are considering, healthcare reform initiatives that address similar issues. While many of the stated goals of the reform initiatives are consistent with our own goal to provide care that is high-quality and cost-effective, legislation and regulatory proposals may lower reimbursements, increase the cost of compliance, and otherwise adversely affect our business. We cannot predict what healthcare initiatives, if any, will be enacted, implemented or amended, or the effect any future legislation or regulation will have on us.

If we are not able to maintain increased case volumes or reduce operating costs to offset any future pricing roll-back or freeze or increased costs associated with new regulatory compliance obligations, our operating results could be adversely affected. Our results could be further adversely affected by other changes in laws or regulations governing the Medicare program, as well as possible changes to or expansion of the audit processes conducted by Medicare contractors or Medicare recovery audit contractors. For additional discussion of healthcare reform and other factors affecting reimbursement for our services, see Item 1, *Business*, Healthcare Reform and Sources of Revenues Medicare Reimbursement in our Annual Report on Form 10-K for the year ended December 31, 2010.

In addition, there are increasing pressures, including as a result of the 2010 Healthcare Reform Laws, 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 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.

Our third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to us under our agreements with them. We could be adversely affected in some of the markets where we operate if the auditing payor alleges that substantial overpayments were made to us due to coding errors or lack of documentation to support medical necessity determinations.