HEALTHSOUTH CORP
Form 424B5
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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 SEPTEMBER 6, 2012

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated September 6, 2012)

$250,000,000

% Senior Notes due 2024

We are offering $250 million aggregate principal amount of our % senior notes due 2024 (the notes). We will pay interest on the notes semiannually in arrears on and of each year, beginning on , 2013. The notes will mature on , 2024.

At any time on or after , 2017, we may redeem some or all of the notes at specified redemption prices. The redemption prices are discussed under the caption Description of Notes Optional Redemption. At any time prior to , 2017, 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. Prior to , 2015, we may redeem up to 35% of the aggregate principal amount of the notes from the proceeds of certain equity offerings at a redemption price of %, 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 and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our subsidiary guarantors that guarantee borrowings under our credit agreement and other capital markets debt. 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 credit agreement, to the extent of the value of the assets securing such debt. In addition, the notes and the guarantees will be 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 Note	Total
Public Offering Price	%	$
Underwriting Discount	%	$
Proceeds to HealthSouth Corporation (before expenses)	%	$

The initial public offering prices set forth above do not include accrued interest, if any. Interest on the notes will accrue from September , 2012 to the date of delivery. The proceeds to HealthSouth Corporation set forth above do not take into account offering expenses.

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 September , 2012.

Joint Book-Running Managers

Wells Fargo Securities	**Barclays**	**BofA Merrill Lynch**
Citigroup	**Goldman, Sachs & Co.**	**J.P. Morgan**
Morgan Stanley	**RBC Capital Markets**	**SunTrust Robinson Humphrey**

September , 2012

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, changes to Medicare reimbursement and other healthcare regulations from time to time, 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, es 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, many of which are beyond our control. 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. 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 for those estimated by us include, but are not limited to, those described under the heading Risk Factors, starting on page S-5 of this prospectus supplement

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.

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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 are the nation s largest owner and operator of inpatient rehabilitation hospitals in terms of revenues, number of hospitals, and patients treated and discharged. In order to focus on this core business and to reduce the excessive amount of debt incurred by our previous management, we completed a strategic repositioning in 2007 when we divested our surgery centers, outpatient, and diagnostic divisions. In 2011, we completed the sale of five of our six freestanding long-term acute care hospitals (LTCHs) and closed the remaining LTCH. As of June 30, 2012, we operated 99 inpatient rehabilitation hospitals (including three hospitals that operate as joint ventures which we account for using the equity method of accounting), 26 outpatient rehabilitation satellite clinics (operated by our hospitals, including one joint venture satellite), and 25 licensed, hospital-based home health agencies. As of June 30, 2012, our inpatient rehabilitation hospitals had 6,538 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). While our national network of inpatient hospitals stretches across 27 states and Puerto Rico, our inpatient hospitals are concentrated in the eastern half of the United States and Texas. In addition to HealthSouth hospitals, we manage three inpatient rehabilitation units through management contracts.

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	$250 million aggregate principal amount of % senior notes due , 2024.
Maturity	, 2024.
Interest Payment Dates	and of each year, beginning on , 2013.
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 six months ended June 30, 2012, the non-guarantor subsidiaries represented in the aggregate approximately 29.6% of our consolidated net operating revenues and approximately 23.4% of our Adjusted EBITDA. As of June 30, 2012, the non-guarantor subsidiaries held approximately 24.2% 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 are structurally subordinated to the indebtedness and other liabilities of our non-guarantor subsidiaries.
Ranking	The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our guarantor 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 structurally subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.
Optional Redemption of Notes	At any time on or after , 2017, we may redeem some or all of the notes at the redemption prices specified in this prospectus supplement under Description of Notes Optional Redemption.
	Prior to , 2017, we may also redeem some or all of the 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.

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	At any time prior to , 2015, we may redeem up to 35% of the aggregate principal amount of the notes in an amount not to exceed the amount of proceeds of one or more equity offerings, at a price equal to % of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, *provided* that at least 65% of the original aggregate principal amount of the notes issued remains outstanding after the redemption.
Change of Control	Upon the occurrence of a change of control, as defined in the indenture, 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 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 the net proceeds from this offering to (i) repay amounts currently drawn on the revolving credit facility under our credit agreement and (ii) redeem up to 10% of

	the outstanding principal amount of our existing 7.25% Senior Notes due 2018 and our existing 7.75% Senior Notes due 2022. We intend to use the balance of the net proceeds of this offering, if any, for general corporate purposes.
Conflicts of Interest	Because the portion of the net proceeds that may be paid to certain of the underwriters or their affiliates that are lenders under our credit agreement may be at least 5% of the net proceeds of this offering, not including underwriting compensation, this offering is being

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	conducted in accordance with the applicable requirements of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121, which requires that a qualified independent underwriter (QIU) participate in the preparation of this prospectus supplement and perform its usual standard of due diligence with respect thereto. As a result of this conflict of interest and in accordance with Rule 5121, RBC Capital Markets, LLC is assuming the responsibilities of acting as the QIU in connection with this offering. We have agreed to indemnify RBC Capital Markets, LLC against certain liabilities incurred in connection with it acting as a qualified independent underwriter for this offering, including liabilities under the Securities Act. See Underwriting (Conflicts of Interest).
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, 2011 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, 2011 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2012 and June 30, 2012, 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 substantial leverage or level of indebtedness may impair our financial condition, may prevent us from fulfilling our obligations under the indenture governing the notes and our other debt instruments, and may have other negative consequences for our business.

As of June 30, 2012, we had approximately $1.2 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding $70.2 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 may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under our indebtedness which may not be successful.

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 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 to you under 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 indenture governing the notes, the indentures governing 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, the indenture governing the notes, and the indentures governing our existing senior notes may affect our ability to operate our business successfully.

The indenture governing the notes, the indentures governing our existing senior 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 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 were in compliance with the financial ratios and financial condition tests set forth in our credit agreement as of June 30, 2012, we cannot assure you that we will continue to meet those financial ratios and 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. A severe downturn in earnings or 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 from the required lenders, we may not be able to obtain it. If this occurs, we would be in default and 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, the indentures governing our existing senior notes or the indenture governing the 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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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 Current Report on Form 8-K dated September 6, 2012 and Description of Notes Certain Covenants in this prospectus supplement for additional information.

As of June 30, 2012, we had $195.0 million of senior secured indebtedness (excluding $70.2 million of capital lease obligations) and $355.6 million of available borrowing capacity under the revolving portion of our prior credit agreement. Assuming this offering, the application of the net proceeds therefrom to pay down all amounts outstanding under the revolving credit facility under our credit agreement and partially redeem certain of our existing senior notes, and the August 2012 refinancing of our prior credit agreement had all been completed on June 30, 2012, as of that date we would have had $16.5 million outstanding senior secured indebtedness (excluding $70.2 million of capital lease obligations) and $539.1 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 indenture. 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 indenture 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 June 30, 2012, these notes would have been structurally subordinated to approximately $195.6 million of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our non-guarantor subsidiaries.

The non-guarantor subsidiaries generated approximately 29.7% of our consolidated net operating revenues and approximately 23.6% of our Adjusted EBITDA for the year ended December 31, 2011. For the six months ended June 30, 2012, the non-guarantor subsidiaries represented in the aggregate approximately 29.6% of our consolidated net operating revenues and approximately 23.4% of our Adjusted EBITDA. As of June 30, 2012, the non-guarantor subsidiaries held approximately 24.2% 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.

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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 indenture 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 indenture governing the notes and the indentures governing our existing senior notes.

Upon a change of control, as defined in the indenture 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 of 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 indenture 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 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.

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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.

The indenture governing the notes offered hereby will contain a savings clause intended to limit each subsidiary guarantor s liability under its guarantee to the maximum amount that will result in the obligations of such subsidiary guarantor under its guarantee of the notes not constituting a fraudulent conveyance or fraudulent transfer under applicable law. However, as was demonstrated in a recent bankruptcy case originating in the State of Florida which was affirmed by the Eleventh Circuit Court of Appeals on other grounds, this provision may not be effective to protect the subsidiary guarantees from being voided under fraudulent conveyance or fraudulent transfer laws. Accordingly, there can be no assurance that this provision will be upheld as intended.

If a guarantee is deemed to be a fraudulent transfer, it could be voided altogether, or it could be subordinated to all other debts of the guarantor. In such case, any payment by the guarantor pursuant to its guarantee could be required to be returned to the guarantor or to a fund for the benefit of the creditors of the guarantor. If a guarantee is voided or held unenforceable for any other reason, holders of the notes offered hereby would cease to have a claim against the subsidiary guarantor based on the guarantee and would be creditors only of the Company and any guarantor whose guarantee was not similarly voided or otherwise held unenforceable.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the notes to other claims against us under the principal of equitable subordination if the court determines that (1) the holder of notes engaged in some type of inequitable conduct, (2) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon holders of notes and (3) equitable subordination is not inconsistent with the provisions of the bankruptcy code.

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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. 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. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes or reimbursement reductions.

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). Many provisions within the 2010 Healthcare Reform Laws have impacted or could in the future impact our business, including: (1) reducing annual market basket updates to providers, which include annual productivity adjustment reductions; (2) implementing pilot studies to assess the potential benefits of combining, or bundling, reimbursement for a Medicare beneficiary s episode of care; (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.

Most notably for us are the reductions in our annual market basket updates. In accordance with Medicare laws and statutes, the United States Centers for Medicare and Medicaid Services (CMS) makes annual adjustments to Medicare reimbursement rates by what is commonly known as a market basket update. The reductions in our annual market basket updates began April 1, 2010 and continue through 2019 for each CMS fiscal year, which for us begins October 1, as follows:

2010	2011	2012-13	2014	2015-16	2017-19
0.25%	0.25%	0.1%	0.3%	0.2%	0.75%

In addition, beginning on October 1, 2011, the 2010 Healthcare Reform Laws require the market basket update to be reduced further by a productivity adjustment on an annual basis. The productivity adjustments equal the trailing 10-year average of changes in annual economy-wide private nonfarm business multi-factor productivity. The productivity adjustment effective from October 1, 2011 to September 30, 2012 is a decrease to the market basket update of 1.0%, while the productivity adjustment effective October 1, 2012 to September 30, 2013 is a decrease to the market basket update of 0.7%.

On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, provisions of which will result in an automatic 2% reduction of Medicare program payments for all healthcare providers effective upon executive order of the President in January 2013. We currently estimate this automatic reduction, known as sequestration, will result in a net decrease in our *Net operating revenues* of approximately $32 million annually in 2013. Additionally, concerns held by federal policymakers about the federal deficit and national debt levels could result in enactment of further federal spending reductions, further entitlement reform legislation affecting the Medicare program, or both. We cannot predict what alternative or additional deficit reduction initiatives or Medicare payment reductions, if any, will ultimately be enacted into law, or the timing or effect any such initiatives or reductions will have on us.

The 2010 Healthcare Reform Laws include 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

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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 to take effect for fiscal year 2014. Effective October 1, 2012, all inpatient rehabilitation facilities will be required to submit data for the IRF Quality Reporting Program to CMS. Beginning in fiscal year 2014, and each subsequent fiscal year thereafter, failure to submit the required quality data will result in a two percentage point reduction to the applicable facility s annual market basket increase factor for payments made for discharges occurring during that fiscal year. We are preparing our hospitals for these reporting requirements and will begin submitting the required data to CMS in October.

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, reduction, 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.

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.

Competition for staffing, shortages of qualified personnel, union activity or other factors may increase our labor costs and reduce profitability.

Our operations are dependent on the efforts, abilities, and experience of our medical personnel, such as physical therapists, occupational therapists, speech pathologists, nurses, and other healthcare professionals and our management. 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 medical personnel is an operating issue facing all healthcare providers. This shortage may require us to continue to enhance wages and benefits to recruit and retain qualified personnel or to contract for 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. In particular, if labor costs rise at an annual rate greater than our net annual market basket

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update from Medicare, our results of operations and cash flows will likely be adversely affected. Union activity is another factor that may contribute to increased labor costs. Our failure to recruit and retain qualified management and medical personnel, or to control our labor costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Compliance with the extensive laws and government regulations applicable to healthcare providers requires substantial time, effort and expense, and if we fail to comply with them, 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;
- policies, either at the national or local level, delineating what conditions must be met to qualify for reimbursement under Medicare (also referred to as coverage requirements);
- coding and billing for services;
- 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 patient information and medical records;
- acquisition and dispensing of pharmaceuticals and controlled substances; and
- disposal of medical and hazardous waste.

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

Although we have invested, and will continue to invest, substantial time, effort, and expense in implementing and maintaining 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, which, if lengthy in duration and material to us, could potentially trigger a default under our credit agreement. Because Medicare comprises a significant portion of our *Net operating revenues*, it is important for us to remain compliant with the laws and regulations governing the Medicare program and related matters including anti-kickback and anti-fraud requirements. As discussed above in connection with the 2010 Healthcare Reform Laws, the federal government has in the last couple of years made fighting healthcare fraud one of the top law enforcement priorities. In the past few years, the Department of Justice (the DOJ) and the United States Department of Health and Human Services as well as federal lawmakers have taken bold and