

CONTINENTAL MEDICAL SYSTEMS INC /DE/

Form 424B5

September 30, 2010

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Filed pursuant to Rule 424(b)(5)  
 Registration No. 333-151848

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee (1)
7.250% Senior Notes due 2018	\$ 275,000,000	100.000%	\$ 275,000,000	\$ 19,607.50
7.750% Senior Notes due 2022	\$ 250,000,000	100.000%	\$ 250,000,000	\$ 17,825.00
Guarantees related to the Senior Notes (2)				

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended.

(2) Pursuant to Rule 457(n) of the Securities Act of 1933, as amended, no separate fee is payable with respect to the guarantees.

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PROSPECTUS SUPPLEMENT

(To Prospectus Dated September 28, 2010)

**\$525,000,000**

**7.250% Senior Notes due 2018**

**7.750% Senior Notes due 2022**

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We are offering \$275 million aggregate principal amount of our 7.250% senior notes due 2018 (the 2018 notes ) and \$250 million aggregate principal amount of our 7.750% senior notes due 2022 (the 2022 notes , and together with the 2018 notes, the notes ). 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. 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 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.

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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.

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	<u>Per 2018 Note</u>	<u>Per 2022 Note</u>	<u>Total</u>
Public Offering Price	100.00%	100.00%	\$ 525,000,000
Underwriting Discount	2.00%	2.00%	\$ 10,500,000
Proceeds to HealthSouth Corporation (before expenses)	98.00%	98.00%	\$ 514,500,000

The initial public offering prices set forth above do not include accrued interest, if any. Interest on the notes will accrue from October 7, 2010 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 October 7, 2010.

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*Joint Book-Running Managers*

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

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*Co-Managers*

**J.P. Morgan                      RBC Capital Markets                      SunTrust Robinson Humphrey                      Wells Fargo Securities**

September 28, 2010

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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 future events, our business strategy, our future financial performance, or our projected business results. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, or continue or the negative of these terms or other comparable 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;

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

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; 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.

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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 operate inpatient rehabilitation hospitals and long-term acute care hospitals, or LTCHs, and provide treatment on both an inpatient and outpatient basis. As of June 30, 2010, we operated 95 inpatient rehabilitation hospitals (including three hospitals that operate as joint ventures which we account for using the equity method of accounting), six freestanding LTCHs, 38 outpatient rehabilitation satellite clinics (operated by our hospitals, including one joint venture satellite), and 25 licensed, hospital-based home health agencies. In addition to HealthSouth hospitals, we manage four inpatient rehabilitation units through management contracts. Our inpatient hospitals are located in 26 states and Puerto Rico, with a concentration of hospitals in Texas, Pennsylvania, Florida, Tennessee, Alabama, and Arizona.

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 injury, spinal cord injury, and neurological disorders, that are generally non-discretionary in nature and which require rehabilitative healthcare services in an inpatient setting. Our team of highly skilled physicians, nurses, and physical, occupational, and speech therapists utilize the latest in equipment and techniques to return patients to home and work. Patient care is provided by nursing and therapy staff as directed by a physician order. Internal case managers monitor each patient's progress and provide documentation of patient status, achievement of goals, discharge planning, and functional outcomes. Our hospitals provide a comprehensive interdisciplinary clinical approach to treatment that leads to what we believe is a higher level of care and superior outcomes.

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

### **Recent Developments**

We are currently working to replace our existing credit agreement with a new credit agreement providing an up to \$500 million revolving credit facility, including a \$260 million letter of credit subfacility, scheduled to mature in five years. We have entered into a commitment letter with a syndicate of lenders who have committed, subject to the terms and conditions of the commitment letter, to provide \$350 million of the revolving credit facility and to use their commercially reasonable efforts to secure commitments from lenders for the balance thereof. This financing commitment is subject to a number of conditions, including negotiation of definitive loan documentation. Although we anticipate that the new credit agreement will be completed, we can offer no assurances that the conditions to the lenders' commitments will be satisfied. See "Description of Our Credit Agreement" for a description of the terms of the proposed new credit agreement.





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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	\$275 million aggregate principal amount of 7.250% senior notes due 2018.  \$250 million aggregate principal amount of 7.750% senior notes due 2022.
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 six months ended June 30, 2010, the non-guarantor subsidiaries represented in the aggregate approximately 28.2% of our consolidated net operating revenues and approximately 20.2% of our Adjusted Consolidated EBITDA. As of June 30, 2010, the non-guarantor subsidiaries held approximately 22.8% 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.
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 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.

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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 original aggregate principal amount of the 2018 notes issued 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 least 65% of the original aggregate principal amount of the 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;

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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 repay a portion of the amounts outstanding under the term loans under our existing credit agreement. We also intend to use a portion of our cash and cash equivalents to repay a portion of the remaining amount outstanding under the term loans after the application of the use of proceeds from this offering.

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, 2009 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, 2009 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 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 substantial indebtedness may impair our financial condition and prevent us from fulfilling our obligations under the indentures governing the notes and our other debt instruments.*

As of June 30, 2010, we had approximately \$1.6 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding \$96.7 million in capital leases).

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

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

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

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

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

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

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

We are required to use a substantial portion of our cash flow to service our debt. Although we expect to make scheduled interest payments and principal reductions, we cannot assure you that changes in our business or other factors will not occur that may have the effect of preventing us from satisfying obligations under the indentures 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 recent tight credit markets will make additional financing more expensive and difficult to obtain. The inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations to you under the notes.

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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 existing credit agreement permit us and our subsidiaries to incur material additional debt. Our proposed new credit agreement will likely also contain provisions permitting us and our subsidiaries to incur material additional debt. See [Description of Our Credit Agreement](#) for a description of the terms of the proposed new 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 existing credit agreement, the indentures governing our existing senior notes and the indentures governing the notes may affect our ability to operate our business successfully.***

The indentures governing the notes, the indentures governing our existing senior notes and the terms of our existing credit agreement do, and our future debt instruments (including our proposed new credit agreement) 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 existing credit agreement requires us to, and our proposed new credit agreement will likely require 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 existing credit agreement as of June 30, 2010, 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 other senior notes or the indentures 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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*As of the date of this prospectus supplement, we have not completed the refinancing of our revolving credit facility.*

We intend to use the net proceeds from this offering to repay amounts outstanding under the term loans outstanding under our existing credit agreement. We are currently working to replace our existing credit agreement with a new credit agreement providing an up to \$500 million revolving credit facility, including a \$260 million letter of credit subfacility, scheduled to mature in five years. We have entered into a commitment letter with a syndicate of lenders who have committed, subject to the terms and conditions of the commitment letter, to provide \$350 million of the revolving credit facility and to use their commercially reasonable efforts to secure commitments from lenders for the balance thereof. This financing commitment is subject to a number of conditions, including negotiation of definitive loan documentation. Although we anticipate that the new credit agreement will be completed, we can offer no assurances that the conditions to the lenders' commitments will be satisfied. See [Description of Our Credit Agreement](#) for a description of the terms of the proposed new credit agreement.

***The notes and the guarantees will not be secured by any of our assets. Our existing 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 existing credit agreement is secured, and our proposed new credit agreement will likely be 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 existing credit agreement have, and would have under our proposed new credit agreement, 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, 2009, and Item 2, *Properties*, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and [Description of Notes - Certain Covenants](#) in this prospectus supplement for additional information.

As of June 30, 2010, we had \$747.5 million of senior secured indebtedness (excluding \$96.7 million of capital lease obligations) and \$400.0 million of available borrowing capacity under the revolving portion of our existing credit agreement. Assuming this offering, the refinancing of our existing revolving credit facility, and the repayment of the term loans (using the proceeds of this offering, \$125.0 million of cash and cash equivalents, and \$97.5 million of our proposed new revolving credit facility) had been completed on June 30, 2010, as of that date we would have had \$97.5 million of senior secured indebtedness (excluding \$96.7 million of capital lease obligations and \$52.9 million of letters of credit outstanding under the existing credit agreement that will become letters of credit under our new proposed revolving credit facility and transaction fees). 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 or under our proposed new credit



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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 and likely will not guarantee borrowings under our proposed new 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, 2010, these notes would have been structurally subordinated to approximately \$193.1 million of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our non-guarantor subsidiaries.

The non-guarantor subsidiaries generated approximately 28.2% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA for the year ended December 31, 2009. For the six months ended June 30, 2010, the non-guarantor subsidiaries represented in the aggregate approximately 28.2% of our consolidated net operating revenues and approximately 20.2% of our Adjusted Consolidated EBITDA. As of June 30, 2010, the non-guarantor subsidiaries held approximately 22.8% 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 existing credit agreement have, and under our proposed new credit agreement, will likely have, the discretion to release the guarantors under the applicable 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 existing credit agreement have, and the lenders under our proposed new credit agreement will likely have, the discretion to release the guarantees under the applicable credit agreement under certain circumstances. While any obligations under the applicable 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 applicable 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 existing credit agreement limit, and our proposed new credit agreement will likely 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



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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 existing credit agreement or our proposed new 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 for the notes. We do not intend to apply for listing of the notes on any securities exchange. If a market for the notes does not develop, you may not be able to resell your notes for an extended period of time, if at all. Consequently, your lenders may be reluctant to accept the notes as collateral for loans. Moreover, if markets for the notes do develop in the future, we cannot assure you that these markets will continue indefinitely or that the notes can be sold at a price equal to or greater than their initial offering price. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market for the notes, if any, may be subject to similar disruptions. Any such disruptions may materially adversely affect you as a holder of the notes. In addition, in response to prevailing interest rates and market conditions generally, as well as our performance, the notes could trade at a price lower than their initial offering price.

*Federal and state statutes could allow courts, under specific circumstances, to void the subsidiary guarantees 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.

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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.

## **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, 2009 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, or 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. CMS recently estimated that aggregate Medicare payments to inpatient rehabilitation facilities for fiscal year 2011 would increase by approximately 2.16%, which reflects a 2.5% market basket increase, as reduced by 0.25% as mandated by the new health reform law for fiscal year 2011 together with an approximate 0.1% overall decrease in rehabilitation outlier payments. There can be no assurance that future governmental initiatives will not result in pricing roll-backs or freezes in the future.

The U.S. Congress recently passed healthcare reform legislation that attempts to address the issues of increasing access to and affordability of healthcare, increasing effectiveness of care, reducing inefficiencies and costs, emphasizing preventive care, and enhancing the fiscal sustainability of, and the protections against fraud and abuse in, the federal healthcare programs. Several of the provisions of the legislation could have an impact on our business. We believe the three 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 acute care hospital and post-acute Medicare reimbursement at some point in the future, and (3) creating an Independent Payment Advisory Board. For further discussion of this recent reform legislation, see Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Executive Overview Key Challenges, of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.



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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 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 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, 2009, and Part I, Item 2, *Management's Discussion and Analysis*, Executive Overview Key Challenges, of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

In addition, there are increasing pressures, including as a result of the recent reform legislation, 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.

Additionally, our third-party payors may, 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.

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

Medicare providers also can be negatively affected by the adoption of coverage policies, either at the national or local levels, describing whether an item or service is covered and under what clinical circumstances it is considered to be reasonable, necessary, and appropriate. In the absence of a national coverage determination, Medicare contractors may specify more restrictive criteria than otherwise would apply nationally. CMS implemented new inpatient rehabilitation hospital coverage criteria effective January 1, 2010 that requires existing local coverage policies to be updated for each Medicare contractor. We cannot predict how the adoption of modified local coverage determinations or other policies will affect us. For a discussion of the new inpatient rehabilitation hospital coverage criteria effective January 1, 2010, see Item 1, *Business*, Sources of Revenue Medicare Reimbursement Inpatient Rehabilitation Hospitals in our Annual Report on Form 10-K for the year ended December 31, 2009. Also see Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, Executive Overview Key Challenges Highly Regulated Industry in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.

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

Our operations are dependent on the efforts, abilities, and experience of our management and medical support personnel, such as physical therapists, nurses, and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified management and support personnel responsible for the

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daily operations of each of our hospitals. In some markets, the lack of availability of physical therapists, nurses, and other medical support personnel has become a significant operating issue to healthcare providers. This shortage may require us to continue to enhance wages and benefits to recruit and retain qualified personnel or to hire more expensive temporary personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate.

If our labor costs increase, we may not be able to raise rates to offset these increased costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased labor costs is limited. Union activity is another factor that contributes to increased labor costs. Various federal legislative proposals, including the proposed Employee Free Choice Act or card check bill, would likely result in increased union activity in general. We cannot, however, predict the form or effect of final legislation, if any, that might promote union activity. Our failure to recruit and retain qualified management, physical therapists, nurses, and other medical support personnel, or to control our labor costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

***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,

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 medical records,

acquisition and dispensing of pharmaceuticals and controlled substances, and

disposal of medical and hazardous waste.

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

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

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

We operate in a highly competitive industry. Although we are the nation's largest provider of inpatient rehabilitative healthcare services, in terms of revenues, number of hospitals, and patients treated and discharged,

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in any particular market we may encounter competition from local or national entities with longer operating histories or other competitive advantages. There can be no assurance that this competition, or other competition which we may encounter in the future, will not adversely affect our business, financial position, results of operations, or cash flows. In addition, weakening certificate of need laws in some states could potentially increase competition in those states.

*We may have difficulty completing acquisitions, investments, or joint ventures consistent with our growth strategy, or we may make investments or acquisitions or enter into joint ventures that may be unsuccessful and could expose us to unforeseen liabilities.*

We intend to selectively pursue strategic acquisitions of, investments in, and joint ventures with rehabilitative healthcare providers and, in the longer term, with other complementary post-acute healthcare operations. Acquisitions may involve material cash expenditures, debt incurrence, additional operating losses, amortization of certain intangible assets of acquired companies, dilutive issuances of equity securities, and expenses that could affect our business, financial position, results of operations and liquidity. Acquisitions, investments, and joint ventures involve numerous risks, including:

limitations, including competition to make acquisitions in certain markets, on our ability to identify acquisitions that meet our target criteria,

limitations, including CMS and other regulatory approval requirements, on our ability to complete such acquisitions on reasonable terms and valuations,

limitations in obtaining financing for acquisitions at a reasonable cost,

difficulties integrating acquired operations, personnel, and information systems, and in realizing projected efficiencies and cost savings,

entry into markets in which we may have limited or no experience, and

exposure to undisclosed or unforeseen liabilities of acquired operations, including liabilities for failure to comply with healthcare laws.

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

Although we have settled the major litigation pending against us, we remain a defendant in a number of lawsuits, and the material lawsuits are discussed in Note 23, *Contingencies and Other Commitments*, to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2009 and Note 8, *Contingencies*, to the condensed consolidated financial statements contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010. Substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

*Uncertainty in the global credit markets could adversely affect our ability to carry out our deleveraging and development objectives.*

The global credit markets experienced significant disruptions in 2008 and 2009, and economic conditions remain volatile in 2010, resulting in very sensitive credit markets. Future market shocks could result in reductions in the availability of certain types of debt financing, including access to revolving lines of credit. Future business needs combined with market conditions at the time may cause us to seek alternative sources of potentially less attractive financing and may require us to adjust our business plan accordingly. A return to tight credit markets would make additional financing more expensive and difficult to obtain. The inability to obtain additional financing on favorable terms could have a material adverse effect on our financial condition.

As a result of credit market uncertainty, we also face potential exposure to counterparties who may be unable to adequately service our needs, including the ability of the lenders under our existing credit agreement or

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proposed new credit agreement to provide liquidity when needed. We monitor the financial strength of our depositories, creditors, derivative counterparties, and insurance carriers using publicly available information, as well as qualitative service experience inputs.

*We may not be able to fully utilize our federal net operating loss carryforwards.*

As of June 30, 2010, we had net operating loss carryforwards, or NOLs, of approximately \$1.9 billion. Unless they expire, these NOLs may be used to offset future taxable income and thereby reduce our federal income taxes otherwise payable. While we believe we will be able to use these tax benefits before they expire over a period of twenty years, there can be no assurance that in the future we will have sufficient taxable income to do so. For further discussion of our NOLs, including the valuation allowance for them, see Note 6, *Income Taxes*, to the consolidated financial statements contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

Section 382 of the Internal Revenue Code, or Section 382, imposes an annual limit on the ability of a corporation that undergoes an ownership change to use its NOLs to reduce its tax liability. An ownership change is generally defined as a collective increase in ownership of more than 50% of a corporation's stock by its 5-percent shareholders (as defined in Section 382) over a rolling three-year period based upon such shareholder's lowest percentage of stock in the corporation owned during such period. It is possible that future transactions, not all of which would be under the Company's control, could cause us to undergo an ownership change as defined in Section 382. In that event, we would not be able to use our pre-ownership-change NOLs in excess of the limitation imposed by Section 382. At this time, we do not believe these limitations will affect our ability to use any NOLs before they expire. However, no such assurances can be provided. If we are unable to fully utilize our NOLs to offset taxable income generated in the future, our results of operations and cash flows could be materially and negatively impacted.

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**USE OF PROCEEDS**

We estimate that the net proceeds from this offering will be approximately \$513.7 million after deducting underwriting discounts and our estimated expenses related to the offering. We intend to use the net proceeds from this offering to repay a portion of the amounts outstanding under the term loans under our existing credit agreement. We also intend to use a portion of our cash and cash equivalents to repay a portion of the remaining amount outstanding under the term loans after the application of the use of proceeds of this offering. See Capitalization.

At June 30, 2010, our term loan expiring on September 2015 had \$297.8 million outstanding and accrued interest at a rate of 4.3% and our term loan expiring on March 2013 had \$449.7 million outstanding and accrued interest at a rate of 2.8%.

Affiliates of certain of the underwriters are lenders and/or agents under the term loans under our existing credit agreement and may receive a portion of the net proceeds from this offering in connection with the repayment of indebtedness under our existing credit agreement. See Underwriting for more information.



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The table below sets forth the following information:

our actual cash and cash equivalents and capitalization as of June 30, 2010; and

our cash and cash equivalents and capitalization, as adjusted to reflect the (i) offering of the notes and the use of proceeds therefrom and (ii) the payment of \$125.0 million from cash and cash equivalents to repay a portion of the remaining amount outstanding under the term loans.

You should read the information in this table together with our consolidated financial statements and the related notes in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which is incorporated herein by reference.

<b>(In millions, except share data)</b>	<b>As of June 30, 2010</b>	
	<b>Actual</b>	<b>As adjusted</b>
<b>Cash and cash equivalents(1)</b>	\$ 172.6	\$ 47.6
<b>Senior secured debt</b>		
Revolving Credit Facility(1)	\$	\$
Term Loan	747.5	97.5
Capital Lease Obligations	96.7	96.7
	<u>844.2</u>	<u>194.2</u>
<b>Senior debt</b>		
Notes offered hereby		525.0
Existing Senior Notes	780.5	780.5
Other notes payable	29.8	29.8
	<u>\$ 810.3</u>	<u>\$ 1,335.3</u>
<b>Total debt</b>	<u>\$ 1,654.5</u>	<u>\$ 1,529.5</u>
Preferred Stock, \$0.10 par value; 1,500,000 shares authorized; 400,000 issued and outstanding; liquidation preference of \$1,000 per share	\$ 387.4	\$ 387.4
<b>Shareholders' deficit</b>		
Common stock, \$0.01 par value; 200,000,000 shares authorized; 97,624,393 issued in 2010; 97,238,725 issued in 2009	1.0	1.0
Capital in excess of par value	2,877.6	2,877.6
Accumulated deficit	(3,629.4)	(3,629.4)
Accumulated other comprehensive loss	(4.0)	(4.0)
Treasury stock, at cost (4,166,756 shares in 2010 and 3,957,047 shares in 2009)	(141.5)	(141.5)
Noncontrolling interests	79.0	79.0

<b>Total shareholders deficit</b>	(817.3)	(817.3)
<b>Total capitalization</b>	\$ 1,224.6	\$ 1,099.6

- (1) We are currently in the process of finalizing the terms of a new revolving credit facility. We intend to use proceeds of that new facility to repay in full and retire the remaining amounts outstanding on the term loans under our existing credit agreement. See Description of Our Credit Agreement.

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**RATIO OF EARNINGS TO FIXED CHARGES AND EARNINGS TO  
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth our consolidated ratios of earnings to fixed charges for the periods presented:

	Six Months Ended	Year Ended December 31,				
	June 30, 2010	2009	2008	2007	2006	2005
Ratio of earnings to fixed charges(1)	2.52	1.85	2.07	*	*	*
Pro forma ratio of earnings to fixed charges(2)	2.17	1.61				

\* For the years ended December 31, 2007, 2006, and 2005, we had an earnings to fixed charges coverage deficiency of approximately \$98.9 million, \$494.6 million, and \$322.8 million, respectively.

The following table sets forth our consolidated ratios of earnings to combined fixed charges and preferred stock dividends for the periods presented:

	Six Months Ended	Year Ended December 31,				
	June 30, 2010	2009	2008	2007	2006	2005
Ratio of earnings to combined fixed charges and preferred stock dividends(1)	2.01	1.49	1.73	**	**	**
Pro forma ratio of earnings to combined fixed charges and preferred stock dividends(2)	1.78	1.33				

\*\* For the years ended December 31, 2007, 2006, and 2005, we had an earnings to combined fixed charges and preferred stock dividends coverage deficiency of approximately \$134.6 million, \$517.8 million, and \$322.8 million, respectively.

- (1) In computing the ratio of earnings to fixed charges: (1) earnings have been based on income from continuing operations before income taxes, fixed charges (exclusive of interest capitalized), and distributed income of equity investees and (2) fixed charges consist of interest and amortization of debt discounts and fees expense (including amounts capitalized), the estimated interest portion of rents, and dividends on our convertible perpetual preferred stock.
- (2) The pro forma ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends reflect the pro forma effects on earnings and fixed charges, as defined in footnote (1) above, depicting the estimated impact of incremental interest expense attributable to this offering.

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**DESCRIPTION OF NOTES**

The following description of the terms of the notes supplements the description of the general terms and provisions of the debt securities contained in the accompanying prospectus. To the extent the following terms are inconsistent with the general description contained in the accompanying prospectus, the following terms replace such inconsistent terms. You should read both the accompanying prospectus and this prospectus supplement.

HealthSouth Corporation will issue the 7.250% Senior Notes due 2018 (the *2018 Notes*) under a supplemental indenture (the *Second Supplemental Indenture*) to be dated the Issue Date and the 7.750% Senior Notes due 2022 (the *2022 Notes*) and together with the 2018 Notes, the *Notes*) under a supplemental indenture (the *Third Supplemental Indenture*) to be dated the Issue Date, in each case, to the senior indenture dated December 1, 2009 (together with the Second Supplemental Indenture, in the case of the 2018 Notes, and the Third Supplemental Indenture, in the case of the 2022 Notes, the *Indenture*), among itself, the Subsidiary Guarantors and The Bank of Nova Scotia Trust Company of New York, as Trustee. The 2018 Notes and the 2022 Notes may each be referred to herein as a series. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. References to the *Indenture* in this Description of Notes include the Second Supplement Indenture, in the case of the 2018 Notes, and the Third Supplemental Indenture, in the case of the 2022 Notes.

Certain terms used in this description are defined under the subheading *Certain Definitions*. In this description, the word *Company* refers only to HealthSouth Corporation and not to any of its subsidiaries.

The following description is only a summary of the material provisions of the Indenture. We urge you to read the Indenture because it, not this description, defines your rights as holders of Notes. You may request copies of the Indenture at our address set forth under the heading *Where You Can Find More Information*.

**Brief Description of the Notes**

These Notes:

are unsecured senior obligations of the Company;

are senior in right of payment to any existing and future Subordinated Obligations of the Company; and

are guaranteed by each Subsidiary Guarantor.

**Principal, Maturity and Interest**

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The Company will issue the 2018 Notes with a maximum aggregate principal amount of \$275.0 million and the 2022 Notes with a maximum aggregate principal amount of \$250.0 million. The 2018 Notes will mature on October 1, 2018 and the 2022 Notes will mature on September 15, 2022. Subject to our compliance with the covenant described under the subheading *Certain Covenants – Limitation on Indebtedness*, we are permitted to issue more Notes of a series from time to time under the Indenture (the *Additional Notes*). The Notes of a series and the Additional Notes of such series, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the Indenture and this Description of Notes, references to the Notes of a series include any Additional Notes of such series actually issued.

Interest on the 2018 Notes will accrue at the rate of 7.250% per annum and interest on the 2022 Notes will accrue at the rate of 7.750% per annum.

Interest on the 2018 Notes will be payable semiannually in arrears on April 1 and October 1 of each year, commencing April 1, 2011. Interest on the 2022 Notes will be payable semiannually in arrears on March 15 and September 15 of each year, commencing March 15, 2011. We will make each interest payment to the holders of record of the 2018 Notes on the immediately preceding March 15 and September 15. We will make each interest

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payment to the holders of record of the 2022 Notes on the immediately preceding March 1 and September 1. We will pay interest on overdue principal at 1% per annum in excess of the rate set forth above and will pay interest on overdue installments of interest at such higher rate to the extent lawful. Interest on the Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Company will issue the Notes in denominations of \$2,000 and any greater integral multiple of \$1,000.

**Optional Redemption****2018 Notes**

On and after October 1, 2014, we will be entitled at our option to redeem all or a portion of the 2018 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on October 1 of the years set forth below:

<b>Period</b>	<b>Redemption Price</b>
2014	103.625%
2015	101.813%
2016	100.000%
2017 and thereafter	100.000%

Prior to October 1, 2013, we will be entitled at our option on one or more occasions to redeem 2018 Notes (which includes Additional Notes of such series, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the 2018 Notes (which includes Additional Notes of such series, if any) issued at a redemption price (expressed as a percentage of principal amount) of 107.25%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Equity Offerings; *provided, however*, that

- (1) at least 65% of such aggregate principal amount of the 2018 Notes (which includes Additional Notes of such series, if any) remains outstanding immediately after the occurrence of each such redemption (other than the 2018 Notes held, directly or indirectly, by the Company or its Affiliates); and
- (2) each such redemption occurs within 90 days after the date of the related Equity Offering.

Prior to October 1, 2014, we will be entitled at our option to redeem up to 10% of the outstanding 2018 Notes (including any Additional Notes of such series) during any 12 month period commencing on the Issue Date at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed by first-class mail to each Holder's registered address, not less than 30 nor more than 60 days prior to the redemption date.

Prior to October 1, 2014, we will be entitled at our option to redeem all or a portion of the 2018 Notes at a redemption price equal to 100% of the principal amount of the 2018 Notes plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed by first-class mail to each Holder's registered address, not less than 30 nor more than 60 days prior to the redemption date.

*Applicable Premium* means with respect to a 2018 Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on October 1, 2014 (such redemption prices being described in the tables above in this Optional Redemption section, and exclusive of any accrued interest), plus (ii) all required remaining

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scheduled interest payments due on such Note through October 1, 2014 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such Note on such redemption date.

*Adjusted Treasury Rate* means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after October 1, 2014, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date, plus 0.50%.

*Comparable Treasury Issue* means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the 2018 Notes from the redemption date to October 1, 2014, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to October 1, 2014.

*Comparable Treasury Price* means, with respect to any redemption date, if clause (2) of the Adjusted Treasury Rate is applicable, the average of two, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such redemption date.

*Quotation Agent* means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

*Reference Treasury Dealer* means each of Citigroup Global Markets Inc. and Barclays Capital Inc. and their respective successors and assigns.

*Reference Treasury Dealer Quotations* means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding such redemption date.

## ***2022 Notes***

On and after September 15, 2015, we will be entitled at our option to redeem all or a portion of the 2022 Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on September 15 of the years set forth below:



<u>Period</u>	<u>Redemption Price</u>
2015	103.875%
2016	102.583%
2017	101.292%
2018 and thereafter	100.000%

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Prior to September 15, 2013, we will be entitled at our option on one or more occasions to redeem 2022 Notes (which includes Additional Notes of such series, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the 2022 Notes (which includes Additional Notes of such series, if any) issued at a redemption price (expressed as a percentage of principal amount) of 107.75%, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Equity Offerings; *provided, however*, that

- (1) at least 65% of such aggregate principal amount of the 2022 Notes (which includes Additional Notes of such series, if any) remains outstanding immediately after the occurrence of each such redemption (other than the 2022 Notes held, directly or indirectly, by the Company or its Affiliates); and
- (2) each such redemption occurs within 90 days after the date of the related Equity Offering.

Prior to September 15, 2015, we will be entitled at our option to redeem up to 10% of the outstanding 2022 Notes (including any Additional Notes of such series) during any 12 month period commencing on the Issue Date at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed by first-class mail to each Holder's registered address, not less than 30 nor more than 60 days prior to the redemption date.

Prior to September 15, 2015, we will be entitled at our option to redeem all or a portion of the 2022 Notes at a redemption price equal to 100% of the principal amount of the 2022 Notes plus the Applicable Premium as of, and accrued and unpaid interest to, the redemption date (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed by first-class mail to each Holder's registered address, not less than 30 nor more than 60 days prior to the redemption date.

*Applicable Premium* means with respect to a 2022 Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on September 15, 2015 (such redemption prices being described in the tables above in this Optional Redemption section, and exclusive of any accrued interest), plus (ii) all required remaining scheduled interest payments due on such Note through September 15, 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such Note on such redemption date.

*Adjusted Treasury Rate* means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after September 15, 2015, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date, plus 0.50%.

*Comparable Treasury Issue* means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the 2022 Notes from the redemption date to September 15, 2015, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to September 15, 2015.



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*Comparable Treasury Price* means, with respect to any redemption date, if clause (2) of the Adjusted Treasury Rate is applicable, the average of two, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such redemption date.

*Quotation Agent* means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

*Reference Treasury Dealer* means each of Citigroup Global Markets Inc. and Barclays Capital Inc. and their respective successors and assigns.

*Reference Treasury Dealer Quotations* means with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding such redemption date.

## **Selection and Notice of Redemption**

If we are redeeming less than all of the Notes of a series at any time, the Trustee will select Notes of that series on a *pro rata* basis to the extent practicable.

We will redeem Notes of \$2,000 or less in whole and not in part. We will cause notices of redemption to be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. We will issue a new Note in a principal amount equal to the unredeemed portion of the original Note in the name of the holder upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

## **Mandatory Redemption; Offers to Purchase; Open Market Purchases**

We are not required to make any mandatory redemption or sinking fund payments with respect to either series of the Notes. However, under certain circumstances, we may be required to offer to purchase Notes as described under the captions **Change of Control** and **Certain Covenants Limitation on Sales of Assets and Subsidiary Stock**. We may at any time and from time to time purchase Notes in the open market or otherwise.

## **Guarantees**

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The Subsidiary Guarantors will jointly and severally Guarantee, on a senior unsecured basis, our obligations under the Notes. The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee will be limited as necessary to prevent that Subsidiary Guarantee from constituting a fraudulent conveyance under applicable law. If, however, a Subsidiary Guarantee were rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such other indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero. See Risk Factors Federal and state statutes could allow courts, under specific circumstances, to void the Subsidiary Guarantees, subordinate claims in respect of the notes and require note holders to return payments received from subsidiary guarantors .

Initially, the Notes are guaranteed by all of our subsidiaries that guarantee borrowings under the Credit Agreement.

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Each Subsidiary Guarantor that makes a payment under its Subsidiary Guarantee will be entitled upon payment in full of all guaranteed obligations under the Indenture to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's *pro rata* portion of such payment based on the respective net assets of all the Subsidiary Guarantors at the time of such payment determined in accordance with GAAP.

Pursuant to the Indenture, (A) a Subsidiary Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person and (B) the Capital Stock of a Subsidiary Guarantor may be sold or otherwise disposed of to another Person to the extent described below under **Certain Covenants** **Limitation on Sales of Assets and Subsidiary Stock** .

The Subsidiary Guarantee of a Subsidiary Guarantor with respect to a series of the Notes will be released:

- (1) upon the designation of such Subsidiary Guarantor as an Unrestricted Subsidiary under the Indenture;
- (2) at such time as any Guarantee by such Subsidiary Guarantor of the obligations under the Credit Agreement and under all Capital Markets Indebtedness has been released and discharged, except a discharge or release by or as a result of payment under such Guarantee; or
- (3) if we exercise our legal defeasance option or our covenant defeasance option as described under **Defeasance** or if our obligations under the Indenture are discharged in accordance with the terms of Indenture.

## **Ranking**

### ***Senior Indebtedness Versus Notes***

The indebtedness evidenced by the Notes and the Subsidiary Guaranties will be unsecured and will rank *pari passu* in right of payment to the Senior Indebtedness of the Company and the Subsidiary Guarantors, as the case may be.

As of June 30, 2010, after giving *pro forma* effect to this Offering, (and the use of the proceeds from this Offering as described under **Use of Proceeds** ) the Senior Indebtedness of the Company and the Subsidiary Guarantors would have been approximately \$1.5 billion, including approximately \$194.2 million of secured indebtedness. Other than capital leases, substantially all of the Senior Indebtedness of the Subsidiary Guarantors consists of their respective guarantees of Senior Indebtedness of the Company under the Credit Agreement and with respect to our outstanding 10.75% Senior Notes due 2016, 8.125% Senior Notes due 2020 and the Notes.

The Notes and the Guarantees thereof are senior unsecured obligations of the Company and the Subsidiary Guarantors respectively. The Notes and the Guarantees thereof will rank equal in right of payment to the current and future senior Indebtedness of the Company and the Subsidiary Guarantors, respectively, and will rank senior in right of payment to any future subordinated Indebtedness of the Company and the Subsidiary Guarantors, respectively. The Notes and Guarantees thereof will be effectively subordinated to current and future secured debt and other secured obligations of the Company and the Subsidiary Guarantors, respectively, including borrowings under the Credit Agreement, to the extent of the value of the assets securing such debt or other obligations.

*Liabilities of Subsidiaries Versus Notes*

A substantial amount of our operations are conducted through our subsidiaries. Certain of our wholly-owned subsidiaries, and substantially all of our non-wholly-owned subsidiaries, are not guaranteeing the Notes. In addition, as described above under Guarantees, Subsidiary Guaranties may be released under certain circumstances. Also, our future subsidiaries may not be required to guarantee the Notes. Claims of creditors of such non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees

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issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of our creditors, including holders of the Notes. Accordingly, the Notes will be structurally subordinated to creditors (including trade creditors) and preferred stockholders, if any, of our non-guarantor subsidiaries.

At June 30, 2010, the total liabilities of our subsidiaries (other than the Subsidiary Guarantors) were approximately \$193.1 million, including trade payables (excluding intercompany liabilities). Although the Indenture limits the incurrence of Indebtedness and preferred stock by certain of our subsidiaries, such limitation is subject to a number of significant qualifications. Moreover, the Indenture does not impose any limitation on the incurrence by such subsidiaries of liabilities that are not considered Indebtedness under the Indenture. See *Certain Covenants* *Limitation on Indebtedness*. The non-guarantor subsidiaries generated approximately 28.2% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA for the year ended December 31, 2009, and generated approximately 28.2% of our consolidated net operating revenues and approximately 20.2% of our Adjusted Consolidated EBITDA for the six months ended June 30, 2010.

## **Transfer and Exchange**

The Notes of each series initially will be represented by one or more global notes in registered form without interest coupons (the *Global Notes*). The Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company (*DTC*), in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form except in the limited circumstances described below. See *Exchange of Global Notes for Certificated Notes*. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of Notes in certificated form.

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time.

## ***Depository Procedures***

The following description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited-purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, the *participants*) and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book-entry changes in accounts of its participants. The participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's



system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (collectively, the *indirect participants* ). Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants.

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DTC has also advised us that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of participants designated by the underwriters with portions of the principal amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the participants) or by the participants and the indirect participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes who are participants in DTC's system may hold their interests therein directly through DTC. Investors in the Global Notes who are not participants may hold their interests therein indirectly through organizations which are participants in such system. All interests in a Global Note may be subject to the procedures and requirements of DTC. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

**Except as described below, owners of an interest in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or Holders thereof under the Indenture for any purpose.**

Payments in respect of the principal of, and interest and premium and additional interest, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the Indenture. Under the terms of the Indenture, the Company and the Trustee will treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners of the Notes for the purpose of receiving payments and for all other purposes. Consequently, neither the Company, the Trustee nor any agent of the Company or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any participant's or indirect participant's records relating to payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the participants and the indirect participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants and will not be the responsibility of DTC, the Trustee or the Company. Neither the Company nor the Trustee will be liable for any delay by DTC or any of its participants in identifying the beneficial owners of the Notes, and the Company and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Transfers between participants and DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds.

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DTC has advised the Company that it will take any action permitted to be taken by a Holder of Notes of a series only at the direction of one or more participants to whose account DTC has credited the interests in the Global Notes for such series and only in respect of such portion of the aggregate principal amount of the Notes of such series as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes of a series, DTC reserves the right to exchange the Global Notes for such series for legended Notes for such series in certificated form, and to distribute such Notes to its participants.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants, it is under no obligation to perform such procedures, and such procedures may be discontinued or changed at any time. Neither the Company nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### ***Exchange of Global Notes for Certificated Notes***

A Global Note for a series is exchangeable for Certificated Notes for such series if:

- (1) DTC (A) notifies the Company that it is unwilling or unable to continue as depository for such Global Notes or (B) has ceased to be a clearing agency registered under the Exchange Act and, in each case, a successor depository is not appointed;
- (2) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes for such series;  
or
- (3) there has occurred and is continuing an Event of Default with respect to the Notes of such series.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures).

### ***Same Day Settlement and Payment***

The Company will make payments in respect of the Notes represented by the Global Notes (including principal, premium, if any, interest and additional interest, if any) by wire transfer of immediately available funds to the accounts specified by DTC or its successor as depository. The Company will make all payments of principal, interest and premium and additional interest, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such Holder's registered address. Any permitted secondary market trading activity in such Notes will be required by DTC to be settled in immediately available funds. The Company expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

### **Change of Control**

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Upon the occurrence of any of the following events (each a *Change of Control* ), each Holder shall have the right to require that the Company repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date):

- (1) the Company becomes aware that any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or has become the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1) such person shall be deemed to have beneficial ownership of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company;

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- (2) at any time during any period of up to 24 consecutive months, commencing on the Issue Date, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office;
- (3) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution; or
- (4) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person, other than a transaction following which (i) in the case of a merger or consolidation transaction, holders of securities that represented 100% of the Voting Stock of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction immediately after such transaction and (ii) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a Subsidiary of the transferor of such assets.

Within 30 days following any Change of Control, we will mail a notice to each Holder with a copy to the Trustee (the *Change of Control Offer* ) stating:

- (1) that a Change of Control has occurred and that such Holder has the right to require us to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);
- (2) the circumstances and relevant facts and financial information regarding such Change of Control;
- (3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and
- (4) the instructions, as determined by us, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased.

We will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by us and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and shall not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the Company and the underwriters. We have no present intention to engage in a transaction involving a Change of Control, although it is possible

that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of

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Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional Indebtedness are contained in the covenants described under Certain Covenants Limitation on Indebtedness , Limitation on Liens and Limitation on Sale/Leaseback Transactions . Such restrictions can only be waived under the Indenture with respect to a series of Notes with the consent of the holders of a majority in principal amount of the Notes of such series then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford holders of the Notes protection in the event of a highly leveraged transaction.

Subject to certain exceptions, the Credit Agreement prohibits us from purchasing any Notes pursuant to a Change of Control Offer, and also provides that the occurrence of certain change of control events with respect to the Company would constitute a default thereunder. In the event a Change of Control occurs at a time when we are prohibited from purchasing Notes, we may seek the consent of our lenders to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If we do not obtain such a consent or repay such borrowings, we will remain prohibited from purchasing Notes. In such case, our failure to offer to purchase Notes would constitute a Default under the Indenture, which would, in turn, constitute a default under the Credit Agreement.

Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the holders of their right to require us to repurchase their Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the holders of Notes following the occurrence of a Change of Control may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of Change of Control includes a disposition of all or substantially all of the assets of the Company to any Person. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of all or substantially all of the assets of the Company. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of Notes may require the Company to make an offer to repurchase the Notes as described above.

Under clause (2) of the definition of Change of Control, a Change of Control will occur when a majority of our board of directors are not Continuing Directors. In a recent decision in connection with a proxy contest, the Delaware Court of Chancery held that the occurrence of a change of control under a similar indenture provision may nevertheless be avoided if the existing directors were to approve the slate of new director nominees (who would constitute a majority of the new board) as continuing directors , provided the incumbent directors give their approval in the good faith exercise of their fiduciary duties owed to the corporation and its stockholders. Therefore, in certain circumstances involving a significant change in the composition of our board of directors, including in connection with a proxy contest where our board of directors does not endorse a dissident slate of directors but approves them as Continuing Directors, holders of the notes may not be entitled to require us to make a Change of Control Offer.

The provisions under the Indenture relative to our obligation to make an offer to repurchase the Notes issued thereunder as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of such Notes.



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### **Certain Covenants**

The Indenture contains covenants including, among others, those summarized below.

#### ***Limitation on Indebtedness***

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; *provided, however*, that the Company and the Subsidiary Guarantors will be entitled to Incur Indebtedness if, on the date of such Incurrence and after giving effect thereto on a *pro forma* basis the Consolidated Coverage Ratio exceeds 2.0 to 1.

(b) Notwithstanding the foregoing paragraph (a), the Company and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

- (1) Indebtedness Incurred pursuant to the Credit Agreement; *provided, however*, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed \$1,551 million less the sum of all principal payments with respect to such Indebtedness made pursuant to paragraph (a)(3)(A) of, and in satisfaction of, the covenant described under Limitation on Sales of Assets and Subsidiary Stock ;
- (2) Indebtedness owed to and held by the Company or a Restricted Subsidiary; *provided, however*, that (A) any subsequent issuance or transfer of any Capital Stock that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon, (B) if the Company is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes, and (C) if a Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations of such Subsidiary Guarantor with respect to its Subsidiary Guarantee;
- (3) the Notes of both series (excluding any Additional Notes);
- (4) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2) or (3) of this covenant);
- (5) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by the Company (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company); *provided, however*, that on the date of such acquisition and after giving *pro forma* effect thereto, the Company would have been entitled to Incur at least \$1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant;
- (6) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or pursuant to clause (3), (4) or (5) or this clause (6);
- (7)

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Hedging Obligations directly related to Indebtedness permitted to be Incurred by the Company and its Restricted Subsidiaries pursuant to the Indenture or entered into in the ordinary course of business and not for speculative purposes;

- (8) obligations in respect of performance, bid and surety bonds and completion guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of business;
- (9) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within three Business Days of its Incurrence;

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- (10) Indebtedness consisting of the Subsidiary Guarantee of a Subsidiary Guarantor and any Guarantee by the Company or a Subsidiary Guarantor of Indebtedness or other obligations of the Company or any Restricted Subsidiary (other than Indebtedness Incurred pursuant to clause (5) above) so long as the Incurrence of such Indebtedness or other obligations by the Company or such Restricted Subsidiary is permitted under the terms of the Indenture;
- (11) (A) Purchase Money Indebtedness, (B) Capital Lease Obligations and (C) Attributable Debt, and Refinancing Indebtedness in respect thereof, in an aggregate principal amount on the date of Incurrence that, when added to all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, does not exceed 15% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto;
- (12) [Intentionally omitted];
- (13) Indebtedness Incurred by a Receivables Entity in a Qualified Receivables Transaction;
- (14) Preferred Stock issued by any Restricted Subsidiary formed to operate a single health care facility; *provided* that the amount of such Preferred Stock, when added to the aggregate amount of all other such Preferred Stock of Restricted Subsidiaries then outstanding, does not exceed 1% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto; and
- (15) Indebtedness of the Company or of any of its Restricted Subsidiaries in an aggregate principal amount that, when taken together with all other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (14) above or paragraph (a)) does not exceed \$250 million.
- (c) Notwithstanding the foregoing, neither the Company nor any Subsidiary Guarantor will incur any Indebtedness pursuant to the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Company or any Subsidiary Guarantor unless such Indebtedness shall be subordinated to the Notes or the applicable Subsidiary Guarantee to at least the same extent as such Subordinated Obligations.
- (d) For purposes of determining compliance with this covenant:
- (1) all Indebtedness outstanding under the Credit Agreement on the Issue Date will be treated as Incurred under clause (1) of paragraph (b) above;
- (2) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, the Company, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses (*provided* that any Indebtedness originally classified as Incurred pursuant to any of clauses (b)(2) through (b)(15) above may later be reclassified as having been Incurred pursuant to paragraph (a) or any other of clauses (b)(2) through (b)(15) above to the extent that such reclassified Indebtedness could be Incurred pursuant to paragraph (a) or one of clauses (b)(2) through (b)(15) above, as the case may be, if it were Incurred at the time of such reclassification); and
- (3) the Company will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above.

*Limitation on Restricted Payments*

(a) The Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

- (1) a Default shall have occurred and be continuing (or would result therefrom);

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- (2) the Company is not entitled to Incur an additional \$1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under Limitation on Indebtedness ; or
- (3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (without duplication):
- (A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from (and including) July 1, 2006 (being the beginning of the fiscal quarter immediately following the fiscal quarter during which the Company's 10.75% Senior Notes due 2016 were issued), to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); *plus*
- (B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) and 100% of any cash capital contribution received by the Company from its shareholders subsequent to the Issue Date; *plus*
- (C) the amount by which Indebtedness of the Company is reduced on the Company's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Company convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); *provided, however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Company or to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); *plus*
- (D) an amount equal to the net reduction in the Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Company or any Restricted Subsidiary; *provided, however*, that the foregoing sum shall not exceed, in the case of any such Person, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person; *plus*
- (E) in the case of the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is redesignated as a Restricted Subsidiary, except to the extent that the Investment in such Unrestricted Subsidiary was made by the Company or a Restricted Subsidiary pursuant to clause (10) of the next succeeding paragraph or to the extent that such Investment constituted a Permitted Investment; *plus*
- (F) \$50 million.

As of June 30, 2010, the amount available for Restricted Payments pursuant to clause (a)(3) would have been approximately \$430.0 million.

(b) The preceding provisions will not prohibit:

- (1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to

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a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company from its shareholders; *provided, however*, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded in the calculation of amounts under clause (3)(B) of paragraph (a) above;

- (2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Company or a Subsidiary Guarantor made by exchange for, or out of the proceeds of the substantially concurrent incurrence of, Indebtedness of such Person that is permitted to be Incurred pursuant to the covenant described under Limitation on Indebtedness ; *provided, however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;
- (3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; *provided, however* that such dividend shall be included in the calculation of the amount of Restricted Payments;
- (4) so long as no Default has occurred and is continuing, the purchase, redemption or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved or ratified by the Board of Directors under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such Capital Stock; *provided, however*, that the aggregate amount of such Restricted Payments (excluding amounts representing cancelation of Indebtedness) shall not exceed \$5,000,000 in any calendar year (*provided* that (A) if the Company and its Restricted Subsidiaries make less than \$5,000,000 in the aggregate of such Restricted Payments in any calendar year, the unused amount for such calendar year may be carried over to the next succeeding calendar year (but not any other calendar year thereafter) and (B) the amount payable in any calendar year may be increased by an amount up to the sum of (i) the amount of cash proceeds from the sale of Capital Stock (other than Disqualified Stock) of the Company to employees, former employees, directors or former directors of the Company or any of its Subsidiaries, to the extent that the cash proceeds from the sale of such Capital Stock have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3)(B) of paragraph (a) of this covenant, plus (ii) the cash proceeds of key man life insurance policies received by the Company or its Restricted Subsidiaries after the Issue Date, less (iii) the amount of repurchases and other acquisitions previously made with the cash proceeds described in clauses (i) and (ii) above); *provided, further, however*, that (x) such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments and (y) cash proceeds referred to in clause (B)(i) above used to make Restricted Payments under this clause (4) shall be excluded in the calculation of amounts under clause (3)(B) of paragraph (a) above;
- (5) (A) the declaration and payment of dividends on the Convertible Preferred Stock, and other cash payments at any time to reduce any accretion in the liquidation preference resulting from previously unpaid dividends on the Convertible Preferred Stock, in each case in accordance with the terms thereof in effect on the Issue Date and (B) the declaration and payments of dividends on Disqualified Stock issued pursuant to the covenant described under Limitation on Indebtedness ; *provided, however*, in each case, that at the time of payment of such dividend or other cash payment, no Default shall have occurred and be continuing (or result therefrom); *provided, further, however*, that dividends and cash payments referred to in this clause (5) shall be excluded in the calculation of the amount of Restricted Payments;
- (6) repurchases of Capital Stock deemed to occur upon exercise of stock options if such Capital Stock represents a portion of the exercise price of such options; *provided, however*, that such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments;

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- (7) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading; *provided, further, however*, that such payments shall be excluded in the calculation of the amount of Restricted Payments;
- (8) in the event of a Change of Control, and if no Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of the Company or any Subsidiary Guarantor, in each case, at a purchase price not greater than 101% of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; *provided, however*, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Company (or a third party to the extent permitted by the Indenture) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased all Notes validly tendered and not withdrawn in connection with such Change of Control Offer; *provided, further, however*, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be excluded in the calculation of the amount of Restricted Payments;
- (9) payments of intercompany subordinated Indebtedness, the Incurrence of which was permitted under clause (2) of paragraph (b) of the covenant described under **Limitation on Indebtedness** ; *provided, however*, that no Default has occurred and is continuing or would otherwise result therefrom; *provided, further, however*, that such payments shall be excluded in the calculation of the amount of Restricted Payments; or
- (10) Restricted Payments in an amount that, when taken together with all Restricted Payments made pursuant to this clause (10), does not exceed \$100 million; *provided, however*, that (A) at the time of each such Restricted Payment, no Default shall have occurred and be continuing (or result therefrom) and (B) such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments.

The amount of any Restricted Payment that is not made in cash shall be determined in a manner consistent with the determination of the amount of an Investment as set forth in the final sentence of the first paragraph of the definition of **Investment**.

***Limitation on Restrictions on Distributions from Restricted Subsidiaries***

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Company or a Restricted Subsidiary or pay any Indebtedness owed to the Company, (b) make any loans or advances to the Company or (c) transfer any of its property or assets to the Company, except:

- (1) with respect to clauses (a), (b) and (c),
  - (A) any encumbrance or restriction pursuant to applicable law, rule, regulation or order or an agreement in effect at or entered into on the Issue Date;
  - (B) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;



- (C) any encumbrance or restriction pursuant to any amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing of an agreement referred to in clause (A) or (B) above; *provided, however*, that such amendment, modification, restatement, renewal,

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increase, supplement, refunding, replacement or refinancing is no more restrictive, as reasonably determined by the Company, with respect to such encumbrances and other restrictions taken as a whole than those prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing;

- (D) any encumbrance or restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;
  - (E) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;
  - (F) any limitation or prohibition on the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, stock sale agreements and other similar agreements, which limitation or prohibition is applicable only to the assets that are the subject of such agreements;
  - (G) any encumbrance or restriction existing under or by reason of contractual requirements of a Receivables Entity in connection with a Qualified Receivables Transaction, *provided* that such restrictions apply only to such Receivables Entity;
  - (H) any encumbrance or restriction arising in the ordinary course of business, not relating to any Indebtedness, that does not, individually or in the aggregate, materially detract from the value of the property or assets of the Company and its Restricted Subsidiaries, taken as whole, or adversely affect the Company's ability to make principal and interest payments on the Notes, in each case, as determined in good faith by the Company; and
- (2) with respect to clause (c) only,
- (A) any encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder; and
  - (B) any encumbrance or restriction contained in Capital Lease Obligations, any agreement governing Purchase Money Indebtedness, security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such Capital Lease Obligations, Purchase Money Indebtedness, security agreements or mortgages.

***Limitation on Sales of Assets and Subsidiary Stock***

- (a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless:
- (1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the shares and assets subject to such Asset Disposition;
  - (2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and

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- (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition, other than any Asset Disposition that constitutes a Syndication or a resyndication transaction in the ordinary course of business,
  - (A) to the extent the Company elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Company or a Subsidiary Guarantor or Indebtedness (other than any Disqualified Stock) of a Restricted Subsidiary that is not a Subsidiary Guarantor (in each case other than Indebtedness owed to the Company or an Affiliate of the Company) within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

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- (B) to the extent the Company elects (including with respect to the balance of such Net Available Cash after application (if any) in accordance with clause (A)), to acquire Additional Assets within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and
- (C) to the extent of the balance of such Net Available Cash after application (if any) in accordance with clauses (A) and (B), to make an offer to the holders of the Notes (and to holders of other Senior Indebtedness of the Company designated by the Company) to purchase Notes (and such other Senior Indebtedness of the Company) pursuant to and subject to the conditions contained in the Indenture;

*provided, however*, that in connection with any prepayment, repayment or purchase of Indebtedness made to satisfy clause (A) or (C) above, the Company or such Restricted Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions of this covenant, the Company and the Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with this covenant except to the extent that the aggregate Net Available Cash from all Asset Dispositions which is not applied in accordance with this covenant exceeds \$50 million. Pending application of Net Available Cash pursuant to this covenant, such Net Available Cash shall be invested in Temporary Cash Investments or applied to temporarily reduce revolving credit indebtedness.

For the purposes of this covenant, the following are deemed to be cash or cash equivalents:

- (1) the assumption or discharge of any liabilities (as shown on the Company's or such Restricted Subsidiary's most recent balance sheet or in the footnotes thereto) of the Company or such Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes) that are assumed by the transferee of such assets and for which the Company and all of the Restricted Subsidiaries have been released by all creditors in writing;
- (2) securities received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary within 180 days into cash, to the extent of cash received in that conversion;
- (3) all Temporary Cash Investments; and
- (4) any Designated Noncash Consideration having an aggregate Fair Market Value that, when taken together with all other Designated Noncash Consideration previously received and then outstanding, does not exceed at the time of the receipt of such Designated Noncash Consideration (with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value) \$30 million.

(b) In the event of an Asset Disposition that requires the purchase of Notes (and other Senior Indebtedness of the Company) pursuant to clause (a)(3)(C) above, the Company will purchase Notes tendered pursuant to an offer by the Company for the Notes (and such other Senior Indebtedness) at a purchase price of 100% of their principal amount (or, in the event such other Senior Indebtedness of the Company was issued with a significant original issue discount, 100% of the accreted value thereof) without premium, plus accrued but unpaid interest (or, in respect of such other Senior Indebtedness of the Company, such lesser price, if any, as may be provided for by the terms of such Senior Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. If the aggregate purchase price of the securities tendered exceeds the Net Available Cash allotted to their purchase, the Company will select the securities to be purchased on a *pro rata* basis but in round denominations, which in the case of the Notes will be denominations of \$2,000 principal amount or any greater integral multiple of \$1,000. The Company shall not be required to make such an offer to



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purchase Notes (and other Senior Indebtedness of the Company) pursuant to this covenant if the Net Available Cash available therefor is less than \$20 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition). Upon completion of such an offer to purchase, Net Available Cash will be deemed to be reduced by the aggregate amount of such offer.

(c) The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations conflict with provisions of this covenant, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of its compliance with such securities laws or regulations.

### ***Limitation on Affiliate Transactions***

(a) The Company will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an *Affiliate Transaction* ) unless:

- (1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm's-length dealings with a Person who is not an Affiliate;
- (2) if such Affiliate Transaction involves an amount in excess of \$10 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company disinterested with respect to such Affiliate Transaction have determined in good faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate transaction as evidenced by a resolution of the Board of Directors; and
- (3) if such Affiliate Transaction involves an amount in excess of \$50 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries or is not less favorable to the Company and its Restricted Subsidiaries than could reasonably be expected to be obtained at the time in an arm's-length transaction with a Person who was not an Affiliate.

(b) The provisions of the preceding paragraph (a) will not prohibit:

- (1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to the covenant described under *Limitation on Restricted Payments* ;
- (2) any employment or consulting agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or approved by the Board of Directors, and payments pursuant thereto;
- (3) loans or advances to employees in the ordinary course of business of the Company or its Restricted Subsidiaries, but in any event not to exceed \$10 million in the aggregate outstanding at any one time;

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- (4) the payment of reasonable fees or other reasonable compensation to, or the provision of customary benefits or indemnification arrangements to, directors of the Company and its Restricted Subsidiaries;
- (5) any transaction with the Company, a Restricted Subsidiary or any Person that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary or Person;
- (6) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company;

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- (7) any agreement as in effect on the Issue Date and described in this Prospectus Supplement (or described in a document incorporated by reference in this Prospectus Supplement) or any renewals or extensions of any such agreement (so long as such renewals or extensions are not less favorable in any material respect to the Company or the Restricted Subsidiaries) and the transactions evidenced thereby;
- (8) the provision of services to directors or officers of the Company or any of its Restricted Subsidiaries of the nature provided by the Company or any of its Restricted Subsidiaries to customers in the ordinary course of business; and
- (9) transactions effected as a part of a Qualified Receivables Transaction.

### ***Limitation on Liens***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur or permit to exist any Lien (the *Initial Lien*) of any nature whatsoever on any of its properties (including Capital Stock of a Restricted Subsidiary), whether owned at the Issue Date or thereafter acquired, securing any Indebtedness, other than Permitted Liens, without effectively providing that the Notes shall be secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

Any Lien created for the benefit of the Holders of the Notes pursuant to the preceding sentence shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien.

### ***Limitation on Sale/Leaseback Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale/Leaseback Transaction with respect to any property unless:

- (1) the Company or such Restricted Subsidiary would be entitled to (A) incur Indebtedness in an amount equal to the Attributable Debt with respect to such Sale/Leaseback Transaction pursuant to the covenant described under *Limitation on Indebtedness* and (B) create a Lien on such property securing such Attributable Debt without equally and ratably securing the Notes pursuant to the covenant described under *Limitation on Liens* ;
- (2) the gross proceeds received by the Company or any Restricted Subsidiary in connection with such Sale/Leaseback Transaction are at least equal to the Fair Market Value of such property; and
- (3) the Company applies the proceeds of such transaction in compliance with the covenant described under *Limitation on Sale of Assets and Subsidiary Stock* .

### ***Merger and Consolidation***



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The Company will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

- (1) the resulting, surviving or transferee Person (the *Successor Company* ) shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Notes and the Indenture;
- (2) immediately after giving *pro forma* effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

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- (3) immediately after giving *pro forma* effect to such transaction, (A) the Successor Company would be able to Incur an additional \$1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under Limitation on Indebtedness or (B) the Consolidated Coverage Ratio for the Successor Company would be equal to or greater than such ratio for the Company and its Restricted Subsidiaries immediately prior to such transaction; and
- (4) the Company shall have delivered to the Trustee an Officers Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture, *provided, however*, that clause (3) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company (so long as no Capital Stock of the Company is distributed to any Person) or (B) the Company merging with an Affiliate of the Company solely for the purpose and with the sole effect of reincorporating the Company in another jurisdiction.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets or one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Successor Company will be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture, and the predecessor Company, except in the case of a lease, shall be released from the obligation to pay the principal of and interest on the Notes.

## ***Future Guarantors***

The Company will cause each Restricted Subsidiary that Guarantees any Indebtedness of the Company or any Subsidiary Guarantor in respect of the Credit Agreement or Capital Markets Indebtedness (or Incurs any such Indebtedness) to, at the same time, execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture.

## ***SEC Reports***

Whether or not the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company will file with the SEC (subject to the next sentence) and provide the Trustee and Noteholders with such annual and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such reports to be so filed and provided at the times specified for the filings of such reports under such Sections and containing all the information, audit reports and exhibits required for such reports. If at any time, the Company is not subject to the periodic reporting requirements of the Exchange Act for any reason, the Company will nevertheless continue filing the reports specified in the preceding sentence with the SEC within the time periods required unless the SEC will not accept such a filing. The Company agrees that it will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept such filings for any reason, the Company will post the reports specified in the preceding sentence on its website within the time periods that would apply if the Company were required to file those reports with the SEC. At any time that any of the Company's Subsidiaries are Unrestricted Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.



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### Defaults

Each of the following is an Event of Default with respect to a series of Notes under the Indenture governing that series of Notes:

- (1) a default in the payment of interest on the Notes of such series when due, continued for 30 days;
- (2) the Company (A) defaults in the payment of principal of any Note of such series when due at its Stated Maturity, upon optional redemption, upon declaration of acceleration or otherwise or (B) fails to purchase Notes of such series when required pursuant to the Indenture or the Notes of such series;
- (3) the failure by the Company to comply with its obligations under Certain Covenants Merger and Consolidation above;
- (4) the failure by the Company or any Subsidiary Guarantor to comply with its agreements contained in the Indenture governing the Notes of such series (other than those referred to in (1), (2) and (3) above) and such failure continues for 60 days after notice;
- (5) Indebtedness of the Company, any Subsidiary Guarantor or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds \$50 million (the *cross acceleration provision* );
- (6) certain events of bankruptcy, insolvency or reorganization of the Company, a Subsidiary Guarantor or any Significant Subsidiary (the *bankruptcy provisions* );
- (7) any judgment or decree for the payment of money in excess of \$50 million is entered against the Company, a Subsidiary Guarantor or any Significant Subsidiary, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or effectively stayed (the *judgment default provision* ); or
- (8) a Subsidiary Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Subsidiary Guarantee) or a Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee.

However, a default under clause (4) will not constitute an Event of Default with respect to a series until the Trustee or the holders of 25% in principal amount of the outstanding Notes of such series notify the Company of the default and the Company does not cure such default within the time specified after receipt of such notice.

If an Event of Default (other than an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company) occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the outstanding Notes of a series may declare the principal of and accrued but unpaid interest on all the Notes of that series to be due and payable. Upon such a declaration, such principal and interest shall be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Company occurs and is continuing, the principal of and interest on all the Notes will *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders of the Notes. Under certain circumstances, the holders of a majority in principal amount of the outstanding Notes of that series may rescind any such acceleration with respect to the Notes and its consequences.

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In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium that the Company would have had to pay if the Company then had elected to redeem the Notes of a series pursuant to the optional redemption provisions of the Indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Notes of that series.

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Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of the Notes of a series unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no holder of a Note of a series may pursue any remedy with respect to the Indenture or the Notes of that series unless:

- (1) such holder has previously given the Trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in principal amount of the outstanding Notes of that series have requested the Trustee to pursue the remedy;
- (3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and
- (5) holders of a majority in principal amount of the outstanding Notes of that series have not given the Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Notes of a series are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other holder of a Note or that would involve the Trustee in personal liability.

If a Default occurs, is continuing and is known to the Trustee, the Trustee must mail to each holder of the Notes of the applicable series notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any Note, the Trustee may withhold notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is not opposed to the interest of the holders of the Notes. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. We are required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event that would constitute certain Defaults, their status and what action we are taking or propose to take in respect thereof.

## **Amendments and Waivers**

Subject to certain exceptions, the Indenture governing Notes of a series may be amended with the consent of the holders of a majority in principal amount of the Notes of such series then outstanding (including consents obtained in connection with a purchase of, or tender offer or