

HEALTHSOUTH CORP  
Form POSASR  
May 03, 2007  
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As filed with the Securities and Exchange Commission on May 3, 2007

Registration No. 333-141688

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Post-Effective**  
**AMENDMENT NO. 1**

**TO**  
**FORM S-3**  
**REGISTRATION STATEMENT**

*UNDER*  
*THE SECURITIES ACT OF 1933*

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**HealthSouth Corporation**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**63-0860407**  
(I.R.S. Employer Identification No.)

**One HealthSouth Parkway**

**Birmingham, Alabama 35243**

**(205) 967-7116**

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

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**John P. Whittington**

**Executive Vice President, General Counsel and Corporate Secretary**

**HealthSouth Corporation**

**One HealthSouth Parkway**

**Birmingham, Alabama 35243**

**(205) 967-7116**

**(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)**

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**Approximate date of commencement of proposed sale to the public:** From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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Prospectus

## **HealthSouth Corporation**

**400,000 Shares of 6.50% Series A Convertible Perpetual Preferred Stock**

**10,000,000 Warrants to Purchase Shares of Common Stock**

**15,114,760 Shares of Common Stock**

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This prospectus relates to the sale from time to time by the selling securityholders named under the caption "Selling Securityholders" in this prospectus, of 400,000 shares of our 6.50% Series A Convertible Perpetual Preferred Stock (the "Series A Preferred Stock"), 10,000,000 warrants (the "Warrants") to purchase shares of our common stock, par value \$0.01 per share (our "common stock"), and 15,114,760 shares of our common stock, 13,114,760 of which are issuable upon conversion of the Series A Preferred Stock and 2,000,000 of which are issuable upon exercise of the Warrants. The Series A Preferred Stock, the Warrants and the shares of common stock issuable upon conversion of their Preferred Stock and issuable upon exercise of their Warrants are collectively referred to in this prospectus as the "offered securities."

We originally issued the 400,000 shares of the Series A Preferred Stock on March 7, 2006, in a private transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D. In a separate transaction, on January 16, 2004, we issued the 10,000,000 Warrants in a private transaction exempt from registration pursuant to Section 4(2) of the Securities Act.

The offered securities are being registered to permit the selling securityholders to sell the offered securities from time to time in the public market. The selling securityholders may sell any or all of the offered securities available to it for sale, subject to federal and state securities laws, but is under no obligation to do so. We will not receive any proceeds from the sale of the offered securities, except with respect to the Warrants under certain circumstances described in greater detail under the heading "Use of Proceeds."

The selling securityholders may sell the offered securities through ordinary brokerage transactions or through any other means described in this prospectus. The price at which the selling securityholders may sell the offered securities will be determined by the prevailing market for the offered securities or in negotiated transactions. See "Plan of Distribution." The registration of the (i) Series A Preferred Stock and the shares of our common stock which are issuable upon conversion of the Series A Preferred Stock are subject to the provisions of a Registrations Rights Agreement dated February 28, 2006, by and between us and certain holders of the Series A Preferred Stock and (ii) the warrants and the shares of our common stock which are issuable upon exercise of the warrants, are subject to the provisions of a Registrations Rights Agreement dated January 16, 2004, by and between us and certain holders of the warrants (together, the "Registration Rights Agreements"). For more information regarding the Registration Rights Agreements see the "Selling Securityholders" section of this prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol "HLS." On May 2, 2007, the last reported sale price of our common stock on the New York Stock Exchange was \$21.00 per share.

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**Investing in the offered securities involves a high degree of risk. You should carefully consider the risk factors incorporated herein by reference and described under the heading "Risk Factors" beginning on page 9.**

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

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The date of this prospectus is May 3, 2007

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**ABOUT THIS PROSPECTUS**

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

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

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

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**FORWARD-LOOKING STATEMENTS**

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

each of the factors discussed in under the heading *Risk Factors*, starting on page 8 of this prospectus or incorporated herein by reference;

the outcome of our plan to reposition our primary focus on the post-acute care sector, including the results of our attempts to divest our surgery centers, outpatient and diagnostic divisions;

changes or delays in or suspension of reimbursement for our services by governmental or private payors;

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

changes in reimbursement for health care services we provide;

competitive pressures in the health care industry and our response to those pressures;

our ability to obtain and retain favorable arrangements with third-party payors;

our ability to attract and retain nurses, therapists, and other health care professionals in a highly competitive environment with often severe staffing shortages; 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**

*This summary highlights some information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and related notes incorporated by reference in this prospectus, before deciding to invest in the offered securities.*

**HealthSouth Corporation**

HealthSouth is the largest provider of rehabilitative health care and ambulatory surgery services in the United States, with 978 facilities and approximately 33,000 full- and part-time employees as of December 31, 2006. We provide these services through a national network of inpatient and outpatient rehabilitation facilities, outpatient surgery centers, diagnostic centers, and other health care facilities. Shares of our common stock began trading on the New York Stock Exchange on October 26, 2006 under the ticker symbol HLS.

This prospectus relates to 400,000 shares of our Series A Preferred Stock, 10,000,000 Warrants to purchase shares of our common stock, and 15,114,760 shares of our common stock, 13,114,760 of which are issuable upon conversion of the Series A Preferred Stock and 2,000,000 of which are issuable upon exercise of the Warrants. The selling securityholders may sell any or all of the offered securities, subject to federal and state securities laws, but they are under no obligation to do so. The price at which the selling securityholders may sell the Shares will be determined by the prevailing market for the offered securities or in negotiated transactions. See "Plan of Distribution" beginning on page 21 of this prospectus.

Each time a selling securityholder sells any offered securities, a prospectus supplement will be provided, to the extent required, that will contain specific information about the terms of that offering. You should read this prospectus and any accompanying prospectus supplement together with the additional information contained under the headings "Incorporation of Certain Documents by Reference" and "Where You Can Find More Information."

HealthSouth was incorporated under the laws of the State of Delaware. Our principal executive offices are located at One HealthSouth Parkway, 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 and should not be relied upon in connection with making any investment decision with respect to the offered securities.

**Recent Significant Events**

On March 12, 2007, the Company announced it had amended its existing Senior Secured Credit Facilities to lower the applicable interest rates and modify certain other covenants. The amendment and related supplement reduce the interest rate on the Term Loan B to LIBOR plus 2.5%, as well as reduce the applicable participation rate on the Tranche A letter of credit facility to 2.5%. The amendment also gives the Company the appropriate approvals for its divestiture activities.

On March 25, 2007, we entered into a Stock Purchase Agreement with ASC Acquisition LLC ( "ASC" ), a Delaware limited liability company and newly-formed affiliate of TPG Partners V, L.P. ( "TPG" ), pursuant to which ASC will acquire our surgery centers division for approximately \$945 million. The purchase price consists of cash consideration of \$920 million, subject to certain adjustments, and an equity interest whereby we will have an option to acquire 5% of ASC's primary shares acquired by TPG at closing at an exercise price that will escalate at 15% annually, which option is estimated to be worth between \$25 and \$30 million assuming a five-year horizon. The closing of the transactions is subject to the satisfaction of closing conditions set forth in the Stock Purchase Agreement, including certain regulatory and other approvals. The closing is anticipated to occur in the third quarter of 2007.

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On April 19, 2007, the Company entered into a definitive agreement with The Gores Group ( Gores ), a private equity firm, pursuant to which Gores will acquire the Company s diagnostic division for approximately \$47.5 million. The transaction is expected to be completed by the end of June or early in the third quarter of 2007 and is subject to customary closing conditions, including regulatory approval.

On May 1, 2007, the Company consummated the transactions contemplated by the previously reported Stock Purchase Agreement with Select Medical Corporation ( Select ), a privately owned operator of specialty hospitals and outpatient rehabilitation facilities, pursuant to which Select acquired the Company s outpatient rehabilitation division.

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**The Series A Preferred Stock**

Issuer	HealthSouth Corporation.
Securities Offered by Selling Securityholders	Up to 400,000 shares of 6.50% Series A Convertible Perpetual Preferred Stock, par value \$0.10 per share.
Liquidation Preference	Initially \$1,000 per share of Series A Preferred Stock, subject to accretion.
Dividends	<p>Holders of Series A Preferred Stock will be entitled to receive, when, as and if declared by our board of directors, out of funds legally available therefor, cash dividends at the rate of 6.50% per annum on the accreted liquidation preference per share, accruing from the beginning of the relevant dividend period and payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing July 15, 2006.</p> <p>If we are prohibited by the terms of our credit facilities, debt indentures or other debt instruments from paying cash dividends on the Series A Preferred Stock, we may pay dividends in shares of our common stock, or a combination of cash and shares of our common stock, if the shares of our common stock delivered as payment are freely transferable by the recipient thereof (other than by reason of the fact that the recipient is our affiliate) or if a shelf registration statement relating to that common stock is effective to permit the resale thereof. Shares of our common stock delivered as dividends will be valued at 95% of their market value. Unpaid dividends will accrete at an annual rate of 8.0% per year for the relevant dividend period and will be reflected as an accretion to the liquidation preference of the Series A Preferred Stock. See Description of the Preferred Stock Dividends.</p>
SEC Reports	If, at any time until February 28, 2008, we fail to file any annual or quarterly reports with the SEC within 15 days after the time periods prescribed under the Exchange Act or the related rules and regulations under the Exchange Act, then the dividend rate per annum will increase by 0.50% until all such reports have been filed.
Conversion	<p>Each share of Series A Preferred Stock may be converted at any time at the option of the holder into a number of shares of our common stock equal to the accreted liquidation preference per share of Series A Preferred Stock divided by the conversion price, as adjusted for the one-for-five reverse stock split. The current conversion price is equal to \$30.50. See Description of the Preferred Stock-Conversion Price Adjustment. The current conversion price is equivalent to an initial conversion rate of 32.7869 shares of common stock for each \$1,000 liquidation preference of the Series A Preferred Stock. The conversion price will not be increased in connection with an accretion</p>



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of the liquidation preference of the Series A Preferred Stock. Accordingly, holders who convert their Series A Preferred Stock following an accretion of dividends will receive more shares of our common stock, See Description of the Preferred Stock Conversion Rights.

Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of common stock, at our option. See Description of the Preferred Stock Settlement Upon Conversion.

Forced Conversion

On or after July 20, 2011, we may cause the shares of Series A Preferred Stock to be automatically converted into shares of our common stock at the conversion rate then in effect if the closing sale price of our common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give the notice of forced conversion exceeds 150% of the conversion price of the Series A Preferred Stock. See Description of the Preferred Stock Forced Conversion.

Conversion in Connection with a Fundamental Change

If holders of the Series A Preferred Stock elect to convert shares of Series A Preferred Stock in connection with certain fundamental changes, we will in certain circumstances increase the conversion rate for such shares of Series A Preferred Stock. See Description of the Preferred Stock Adjustment to the Conversion Rate Upon a Fundamental Change and Determination of the Adjustment to the Conversion Rate Upon a Fundamental Change.

Repurchase Upon a Fundamental Change

If we undergo a fundamental change, each holder of shares of Series A Preferred Stock will have the right to require us to repurchase any or all of its shares with cash at a purchase price equal to 100% of the accreted liquidation preference, plus any accrued and unpaid dividends to the date of repurchase. Our ability to purchase all or a portion of the Series A Preferred Stock for cash is subject to our obligation to repay or repurchase any outstanding debt required to be repaid or repurchased in connection with a fundamental change.

In addition, holders of Series A Preferred Stock will not have the right to require us to repurchase shares of Series A Preferred Stock upon a fundamental change (i) unless such purchase complies with our credit facilities, our debt indentures and our other debt instruments and (ii) unless and until our board of directors has approved such fundamental change or elected to take a neutral position with respect to such fundamental change. See Description of the Preferred Stock Repurchase Upon a Fundamental Change.

Voting Rights

Each holder of Series A Preferred Stock will have one vote for each share held by the holder on all matters voted upon by the holders of

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our common stock, as well as voting rights specifically provided for in our restated certificate of incorporation or as otherwise from time to time required by law. In addition, if we fail to repurchase shares of Series A Preferred Stock following a fundamental change, then the holders of Series A Preferred Stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to call a special meeting of our board of directors and, at the special meeting, vote for the election of two additional directors to our board of directors. The term of office of all directors so elected will terminate immediately upon our repurchase of those shares of Series A Preferred Stock. See Description of the Preferred Stock Voting Rights.

Ranking

The Series A Preferred Stock will be, with respect to dividend rights and rights upon liquidation, winding-up or dissolution:

senior to all classes of our common stock and each other class of capital stock or series of preferred stock established after the Issue Date of the Series A Preferred Stock, the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution;

on a parity with any class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank on a parity with the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution;

junior to each class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank senior to the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution; and

junior to all our existing and future debt obligations and other liabilities, including claims of trade creditors.

Use of Proceeds

We will not receive any proceeds from the selling securityholders sale of the shares of Series A Preferred Stock or the shares of common stock issuable upon conversion of the Series A Preferred Stock.

Anti-Dilution Adjustments

The conversion price may be adjusted if certain events occur. See Description of the Preferred Stock-Conversion Price Adjustment.

Tax Consequences

For a discussion of certain U.S. federal income tax consequences with respect to the ownership, conversion and disposition of the Series A Preferred Stock, see Certain U.S. Federal Income Tax Considerations.

Registration Rights

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We entered into a registration rights agreement with the holders of the Series A Preferred Stock, pursuant to which we are required to timely

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file a registration statement and to use our reasonable best efforts to keep it effective for a period of time specified therein. See **Description of Preferred Stock Registration Rights**. We filed the registration statement of which this prospectus forms a part with the SEC pursuant to the registration rights granted in connection with the original issuance of the Series A Preferred Stock.

**Risk Factors**

See **Risk Factors** beginning on page 9 of this prospectus and the other information in our SEC filings for a discussion of the factors you should carefully consider before deciding to invest in the Series A Preferred Stock.

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**The Warrants**

Issuer	HealthSouth Corporation.
Securities Offered by Selling Securityholders	Up to 10,000,000 Warrants, each entitling the holder thereof to purchase one-fifth of a share of HealthSouth Corporation common stock, par value \$0.01 per share.
Exercise Period	Each warrant is exercisable at any time on or prior to January 16, 2014.
Exercise Price	Each warrant entitles its holder to purchase one-fifth of a share of our common stock at an exercise price of \$32.50 per share, in each case, as adjusted for our recent one-for-five reverse stock split. See Description of the Warrants.
Repurchase Offers	The Company will offer to repurchase all outstanding Warrants, subject to certain limitations, in the event of certain business combination transactions pursuant to which the common stock thereafter issuable upon exercise of the Warrants is not registered. See Description of the Warrants Repurchase Offers.
Adjustments	The exercise price of each warrant and the number of shares of common stock purchasable upon the exercise of each warrant may be adjusted, subject to certain exceptions, upon (a) payment of a dividend or distribution, (b) subdivision of the common stock, (c) consolidation of the common stock, (d) reclassification or conversion of common stock, (e) merger or other business combination transactions, (f) issuance of rights or privileges to purchase common stock at a price that is lower than the current value of the stock, and (g) distributions of debt, assets, subscription rights or convertible securities. See Description of the Warrants Adjustments.
Warrant Holder not a Stockholder	The Warrants do not entitle the holders to any voting or other rights as are accorded to our stockholders.
Tax Consequences	For a discussion of certain U.S. federal income tax consequences with respect to the ownership, exercise and disposition of the Warrants, see Certain U.S. Federal Income Tax Considerations.
Registration Rights	HealthSouth Corporation agreed to file a registration statement with respect to the Warrants and the shares of common stock issuable upon exercise thereof. Pursuant to the registration rights agreement, we are required to file a registration statement with the SEC in a timely manner. We filed the registration statement of which this prospectus forms a part with the SEC pursuant to the registration rights granted in connection with the original issuance of the Warrants. We will use our reasonable best efforts to keep this registration statement

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continually effective for the requisite period, but will be permitted to suspend the use of this prospectus for a period not to exceed sixty (60) consecutive days under certain circumstances. See Description of the Warrants Registration Rights.

Risk Factors

See Risk Factors beginning on page 9 of this prospectus, as well as other information in our SEC filings, for a discussion of the factors you should carefully consider before deciding to invest in the Warrants.

**Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends**

Our ratio of earnings to combined fixed charges and preferred stock dividends for the years ended December 31, 2006, 2005, 2004, 2003 and 2002 were 0, 0, 1.15x, 0 and 0, respectively. See Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

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**RISK FACTORS**

*Investing in our securities involves a high degree of risk. You should carefully consider the specific risks described below, the risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as amended by our Form 10-K/A filed with SEC on March 22, 2007, which are incorporated herein by reference, the risk factors described under the caption Risk Factors in any applicable prospectus supplement and any risk factors set forth in our other filings with the SEC, pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act before making an investment decision. See Where You Can Find More Information.*

***Risks Related to the Series A Preferred Stock***

**The Series A Preferred Stock ranks junior to all of our liabilities.**

The Series A Preferred Stock ranks junior to all of our liabilities. In the event of our bankruptcy, liquidation or winding-up, our assets will be available to pay obligations on the Series A Preferred Stock only after all our indebtedness and other liabilities have been paid. In addition, the Series A Preferred Stock will effectively rank junior to all existing and future liabilities of our subsidiaries and any capital stock of our subsidiaries held by others. The rights of holders of the Series A Preferred Stock to participate in the distribution of assets of our subsidiaries will rank junior to the prior claims of that subsidiary's creditors and any other equity holders. Consequently, if we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets remaining to pay amounts due on any or all of the Series A Preferred Stock then outstanding. In addition, we and our subsidiaries may incur substantial amounts of additional debt and other obligations that will rank senior to the Series A Preferred Stock.

**We may not be able to pay the purchase price of the Series A Preferred Stock in cash upon a fundamental change. We also could be prevented from paying dividends on shares of the Series A Preferred Stock.**

In the event of a fundamental change, you will have the right to require us to purchase with cash all your shares of Series A Preferred Stock. However, we may not have sufficient cash to purchase your shares of Series A Preferred Stock upon a fundamental change or may be otherwise unable to pay the purchase price in cash.

In addition, holders of shares of Series A Preferred Stock will not have the right to require us to repurchase shares of Series A Preferred Stock upon a fundamental change (i) unless such purchase complies with our credit agreements, our debt indentures and our other debt instruments and (ii) unless and until our board of directors has approved such fundamental change or elected to take a neutral position with respect to such fundamental change. The terms of our existing credit agreements and other debt instruments currently contain applicable limitations on our ability to pay the purchase price of the Series A Preferred Stock in cash. These agreements also contain restrictions that could limit our ability to pay dividends on the shares of Series A Preferred Stock.

In the future, we may agree to restrictions on our ability to pay dividends. Even if the terms of the instruments governing our indebtedness allow us to pay dividends and to purchase the Series A Preferred Stock in cash, we can only make such payments out of our surplus, as determined by our board of directors, or, if there is no surplus, out of our net profits for the fiscal year in which the payment occurs and/or for the preceding fiscal year, as determined by our board of directors, and such funds may not be available to pay dividends to you or to purchase your shares of Series A Preferred Stock. Dividends on the Series A Preferred Stock will only be paid when, as and if declared by our board of directors. The board of directors may elect not to declare dividends on the Series A Preferred Stock. In addition, to maintain our credit rating, we may be limited in our ability to pay dividends so that we can maintain an appropriate level of debt.

Further, because a substantial amount of our operations are conducted through our subsidiaries, our ability to purchase the Series A Preferred Stock for cash or to pay dividends on the Series A Preferred Stock may be limited by restrictions on our ability to obtain funds for such purchase or dividends through dividends from our subsidiaries.

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### **An active trading market for the Series A Preferred Stock may not develop, and you may be unable to resell your shares of Series A Preferred Stock at or above the purchase price.**

No trading market for the Series A Preferred Stock currently exists, and we have not applied and do not intend to apply for the listing of the Series A Preferred Stock on any securities exchange or for the inclusion of the Series A Preferred Stock in any automated quotation system. Consequently, a liquid trading market for the Series A Preferred Stock may not develop and the market price of the Series A Preferred Stock may be volatile. As a result, you may be unable to sell your shares of Series A Preferred Stock at a price equal to or greater than that which you paid, if at all.

### **If you convert your shares of Series A Preferred Stock into shares of common stock, you may experience immediate dilution.**

If you convert your shares of Series A Preferred Stock into shares of common stock, you may experience immediate dilution because the per share conversion price of the Series A Preferred Stock immediately after this offering may be, and at the closing of the offering will be, higher than the net tangible book value per share of the outstanding common stock. In addition, you will also experience dilution when and if we issue additional shares of common stock, including common stock we may be required to issue pursuant to options, warrants, our stock option plan or other employee or director compensation plans.

### **The price of our common stock, and therefore of the Series A Preferred Stock, may fluctuate significantly, which may make it difficult for you to resell the Series A Preferred Stock, or common stock issuable upon conversion of the Series A Preferred Stock, when you want or at prices you find attractive.**

The price of our common stock quoted on the New York Stock Exchange constantly changes. We expect that the market price of our common stock will continue to fluctuate. Because the Series A Preferred Stock is convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the Series A Preferred Stock. Holders who have received common stock upon conversion will also be subject to the risk of volatility and depressed prices.

Our stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

new laws or regulations or new interpretations of existing laws or regulations applicable to our business;

changes in accounting standards, policies, guidance, interpretations or principles;

our inability to raise additional capital;

sales of common stock by us or members of our management team;

quarterly variations in our operating results;

operating results that vary from the expectations of management, securities analysts and investors;

changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

developments generally affecting our industry;



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announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;

announcements by third parties of significant claims or proceedings against us;

our dividend policy;

future sales of our equity or equity-linked securities; and

general domestic and international economic conditions.

In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of our common stock.

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### **The additional shares of our common stock payable on our Series A Preferred Stock in connection with certain fundamental changes may not adequately compensate you for the lost option time value of your shares of our Series A Preferred Stock as a result of such fundamental change.**

If a fundamental change occurs, we will, in certain circumstances, increase the conversion rate of our Series A Preferred Stock by a number of additional shares of common stock. The number of additional shares of our common stock will be determined based on the date on which the fundamental change becomes effective, and the price paid per share of common stock in the fundamental change transaction as described under Description of the Preferred Stock Adjustment to the Conversion Rate Upon a Fundamental Change and Determination of the Adjustment to the Conversion Rate Upon a Fundamental Change. While the increase in the conversion rate upon conversion is designed to compensate you for the lost option time value of your shares of Series A Preferred Stock as a result of the fundamental change, the increase is only an approximation of this lost value and may not adequately compensate you for your loss. If the price paid per share of common stock in the fundamental change transaction is less than the price per share of the common stock at the date of issuance of our Series A Preferred Stock or above a specified price, there will be no increase in the conversion rate.

### **We may issue additional shares of preferred stock that rank equally to the Series A Preferred Stock as to dividend payments and liquidation preference.**

Our restated certificate of incorporation and the certificate of designations for the Series A Preferred Stock do not prohibit us from issuing additional shares of preferred stock that would rank equally to the Series A Preferred Stock as to dividend payments and liquidation preference. Including the 400,000 shares of the Series A Preferred Stock issued for sale pursuant to this Prospectus, our restated certificate of incorporation provides that we have the authority to issue 1,500,000 shares of preferred stock. The issuances of other shares of preferred stock could have the effect of reducing the amounts available to the Series A Preferred Stock in the event of our liquidation. It may also reduce dividend payments on the Series A Preferred Stock if we do not have sufficient funds to pay dividends on all preferred stock outstanding and outstanding parity preferred stock at the time of such dividend payments.

### **Future issuances of Series A Preferred Stock may adversely affect the market price for our common stock.**

Additional issuances and sales of Series A Preferred Stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at a time and price favorable to us.

### **We may not have sufficient earnings and profits in order for distributions on the Series A Preferred Stock to be treated as dividends for U.S. federal income tax purposes.**

The distributions paid by us may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes. Distributions in excess of such earnings and profits generally will be treated first as a return of capital to the extent of the holder's adjusted tax basis in the Series A Preferred Stock, and the remainder, if any, as capital gain. Distributions resulting in capital gain may be less favorable than distributions resulting in dividend income for corporate holders of Series A Preferred Stock for U.S. federal income tax purposes. See Certain U.S. Federal Income Tax Considerations U.S. Holders.

### **Holders of the Series A Preferred Stock will have limited rights as a common stockholder until they acquire our common stock upon conversion.**

Until you acquire shares of our common stock upon conversion, you will have limited rights with respect to our common stock, in an amount equal to one vote per \$1,000 liquidation preference of Series A Preferred Stock. Upon conversion, based on the current conversion rate, you will receive 32.7869 shares of our common stock. Upon conversion, you will be entitled to exercise the rights of a holder of common stock based on the then existing conversion rate only as to matters for which the record date occurs after the conversion date.

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Nevertheless, at all times, you will be subject to any changes in the powers, preferences or special rights of our common stock.

**You may be required to recognize taxable income with respect to Series A Preferred Stock even if you receive no cash distributions.**

You may be liable for taxes arising from (i) the receipt of a distribution made solely in the form of common stock or (ii) the receipt of a deemed distribution resulting from an increase in the liquidation preference of the Series A Preferred Stock, in each case without receiving any cash distributions to pay such taxes. See Certain U.S. Federal Income Tax Considerations.

**Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change of control of our company even if some stockholders might consider such a development favorable, which may adversely affect the price of our common stock.**

Provisions in our restated certificate of incorporation and by-laws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our restated certificate of incorporation authorizes our board of directors to issue shares of preferred stock to which special rights are attached, including voting and dividend rights. With these rights, preferred stockholders could make it more difficult for a third party to acquire us.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, interested stockholder means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

Pursuant to the terms of (i) our credit agreement entered into on March 10, 2006, with a consortium of financial institutions and (ii) our floating rate senior notes due 2014 and our 10.75% senior notes due 2016 (together, the notes), the occurrence of a change of control is an event of default that gives the applicable lenders or holders the right to pursue remedies, including, without limitation, accelerating all of our obligations under the respective obligation and declaring all such obligations immediately due and payable. Pursuant to the terms of our notes, upon any change of control the holders may require us to repay all of our outstanding obligations under the notes at a price equal to 101% of the principal amount of all such obligations plus accrued and unpaid interest, if any, to the date of such repayment. These change of control provisions could discourage, delay or prevent a change in control of our company.

Finally, the provisions of the Series A Preferred Stock provide you with protections in connection with the occurrence of certain fundamental changes. These protections will likely be viewed unfavorably by potential acquirers of ours, and may discourage, delay or prevent transactions involving such fundamental changes, including transaction which holders of our common stock and of our Series A Preferred Stock would find desirable.

***Risks Related to the Warrants***

**There may be no active trading market for the Warrants.**

Before the offering, there has been no established trading market for the Warrants. We have not applied and do not intend for listing of the Warrants on any national securities exchange. We cannot assure you as to the development or liquidity of any market for the Warrants, the ability of the holders of the Warrants to sell the

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Warrants or any portion thereof or the price at which holders would be able to sell the Warrants or any portion thereof. The trading price of the Warrants will depend on the price of our common stock, the market for similar securities and other factors, including economic conditions and our financial condition, performance and prospects.

**The exercise of the Warrants will dilute the ownership interests of existing stockholders and any sales in the public market of the common stock issuable upon such exercise could adversely affect prevailing market prices of our common stock.**

Exercise of the Warrants will dilute the ownership interests of existing stockholders. In addition, the existence of the Warrants may encourage short selling by market participants because exercise of the Warrants could depress the price of our common stock.

**You should consider the United States federal income tax consequences of owning the Warrants and our common stock.**

You are urged to consult your tax advisors with respect to the United States federal income tax consequences resulting from an exercise of the Warrants, as well as the possibility of taxable income resulting from certain changes in the conversion rate or failure to make a change in the conversion rate. A discussion of certain United States federal income tax consequences of ownership of the Warrants and common stock received upon an exercise of a Warrant is contained under the heading "Certain U.S. Federal Income Tax Considerations."

**The Warrants may have no value in a bankruptcy.**

In the event of a bankruptcy or reorganization or other insolvency proceeding by or against us, the unexercised Warrants may be deemed to be executory contracts subject to rejection by us with approval of the bankruptcy court. As a result, even if sufficient funds are available, holders of the Warrants may not be entitled to receive any consideration or may receive less than they would be entitled to if they had exercised their Warrants prior to the commencement of such bankruptcy or reorganization.

**We may be deprived of favorable opportunities to secure additional equity capital due to the warrant holders' ability to exercise their Warrants.**

For the life of the Warrants, the warrant holders are given the opportunity to profit from the rise in the market value of shares of our common stock, if any, at the expense of the common stockholders and we might be deprived of favorable opportunities to secure additional equity capital, if it should then be needed, for the purpose of our business. A warrant holder may be expected to exercise the Warrants at a time when we, in all likelihood, would be able to obtain equity capital, if we needed capital then, by a public sale of a new offering on terms more favorable than those provided in the Warrants.

**The Warrants may expire without value.**

During the time in which the Warrants can be exercised, the price of the shares of common stock could remain below \$32.50, the current exercise price of the Warrants. The Warrants issued in the preliminary offering were exercisable on the date on which they were issued pursuant to a warrant agreement between the Company and Wells Fargo Bank Northwest, N.A. (the "Warrant Agreement") and will remain exercisable until their expiration on January 16, 2014. Any Warrants not exercised before their expiration date will be void. If the price of the shares of common stock remains below the exercise price for the Warrants during the period in which the Warrants are exercisable, the Warrants will expire without value.

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**You may not be able to transfer or exercise your Warrants if we do not maintain an effective registration statement.**

We have agreed to use our reasonable best efforts to file and maintain, at all times during which the Warrants are exercisable, a registration statement relating to the issuance of the shares of common stock underlying the Warrants, for the benefit of the warrant holders. If a registration statement relating to the shares of common stock for which the Warrants are being exercised is not in effect at the time of exercise, then the Warrants may only be exercised pursuant to an exemption to the registration requirements of the Securities Act. See Description of the Warrants.

*Risks Related to Our Common Stock*

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

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

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

The sale of substantial amounts of our common stock could adversely affect its price. The shares of common stock issuable upon conversion of the Series A Preferred Stock or exercise of the Warrants will, thereafter, be immediately available for sale, without regard to volume limits, timing, manner of sale or other restrictions under federal and state securities laws. The availability of a large block of stock for sale in relation to our normal trading volume, including a large block sold by a selling securityholder, could result in a decline in the market price of our common stock and may have a dilutive effect on our existing stockholders. Sales by the selling securityholders also might make it more difficult for us to sell equity securities in the future at times and prices that we deem appropriate.

**During a liquidation, our obligations to the holders of shares of our preferred stock must be satisfied before any payments are made to the holders of our common stock.**

If we are liquidated, the holders of our preferred stock will be entitled to be paid in full before any payments are made to the holders of our common stock. Our Series A Preferred Stock has an aggregate liquidation preference of \$400,000,000. Any funds used to pay the holders of our Series A Preferred Stock must be paid before any amounts may be paid to the holders of our common stock.

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

The following table sets forth the consolidated ratios of earnings to combined fixed charges and preference dividends for HealthSouth Corporation and its subsidiaries:

Year ended December 31,				
2006	2005	2004	2003	2002
*	*	1.15x	*	*

\* For the years ended December 31, 2006, 2005, 2003, and 2002, the Company had an earnings-to-combined fixed charges and preferred stock dividends coverage deficiency of approximately \$496.8 million, \$250.1 million, \$372.3 million, and \$271.8 million, respectively. 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 Series A Preferred Stock.

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**USE OF PROCEEDS**

All sales of the offered securities will be made by or for the account of the selling securityholders named in this prospectus, in any supplement to this prospectus or in an amendment to the registration statement of which this prospectus forms a part. We will not receive any proceeds from the sale by any selling securityholders of the offered securities. We may, however, receive cash consideration in connection with the exercise of the Warrants if the holders thereof make a cash payment for the exercise price rather than exercise the warrant through a cashless exercise, as provided in the Warrant Agreement. If the Warrants are fully exercised for cash, we would receive proceeds, before expenses, in the amount of \$65,000,000, subject to any adjustment to the exercise price and number of shares issuable upon exercise of the Warrants in connection with the anti-dilution provisions contained in the Warrant Agreement. When and if we receive these proceeds, we will use them for general corporate purposes. However, there can be no assurance that any or all of these Warrants will be exercised in whole or in part prior to the expiration of the Warrants.

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**SELLING SECURITYHOLDERS**

**Series A Preferred Stock**

In connection with our recapitalization transactions, we issued 400,000 shares of the Series A Preferred Stock on March 7, 2006, in a private placement.

This prospectus relates to:

resales of up to 400,000 shares of Series A Preferred Stock beneficially owned by the selling securityholders listed below;

issuance of shares of our common stock upon conversion of the Series A Preferred Stock;

issuance of shares of our common stock as a result of any anti-dilution adjustments; and

sales of any shares of our common stock that may be delivered in connection with a dividend payment on the Series A Preferred Stock,

in each case, as described below under Plan of Distribution. We filed the registration statement of which this prospectus forms a part with the SEC pursuant to the registration rights granted in connection with the original issuance of the Series A Preferred Stock to afford the holders of the Series A Preferred Stock the opportunity to sell their securities in public transactions rather than pursuant to exemptions from the registration and prospectus delivery requirements of the Securities Act. To take advantage of that opportunity, a holder of the Series A Preferred Stock must provide information about itself and the securities it is selling as required under the Securities Act.

The selling securityholders listed below and the beneficial owners of the Series A Preferred Stock and their transferees, pledgees, donees or other successors, if not identified in this prospectus then so identified in supplements to this prospectus or in an amendment to the registration statement of which this prospectus forms a part, as required, are the Preferred Selling Securityholders under this prospectus. The following table sets forth for each Preferred Selling Securityholder, as of a recent practicable date prior to the effectiveness of the registration statement of which this prospectus forms a part:

the name of the Preferred Selling Securityholder;

the number of shares of Series A Preferred Stock and common stock beneficially owned by each Preferred Selling Securityholder prior to the offering;

the number of shares of Series A Preferred Stock and common stock registered for sale for the account of each Preferred Selling Securityholder under this prospectus; and

the number and percent of shares of Series A Preferred Stock and common stock to be beneficially owned by each Preferred Selling Securityholder after completion of the offering (assuming all of the shares covered hereby are sold by each Preferred Selling Securityholder).

The information is based on information provided by or on behalf of the Preferred Selling Securityholders to us in Preferred Selling Securityholder questionnaires and is as of the date specified by the holders of the questionnaires. We have not sought to verify the information contained in the table. Because the Preferred Selling Securityholders may offer all or some portion of these securities pursuant to this prospectus, and because we are not currently aware of any agreements, arrangements or understandings with respect to the sale of these securities, we cannot



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predict the number of shares or principal amount of the securities that will be held by the selling securityholders upon termination of this offering. In addition, some of the selling securityholders may have sold, transferred or otherwise disposed of all or a portion of their securities since the date on which they provided the information about themselves and the securities they were selling in transactions exempt from the registration requirements of the Securities Act. See Plan of Distribution.

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Unless otherwise disclosed in the footnotes to the table below, no Preferred Selling Securityholder has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates.

(a)	Series A Preferred Stock		(d)	(e)	Common Stock		(h)	
	(b)	(c)			(f)	(g)		
Name	Number of Shares Beneficially Owned Prior to Offering	Number of Shares that may be Offered Hereby (1)	Number of Shares to be Owned After Completion of the Offering (2)	Percent of Shares Beneficially Owned After the Offering (2)	Number of Shares Beneficially Owned Prior to Offering	Number of Shares that may be Offered Hereby (1) (3)	Number of Shares to be Owned After Completion of the Offering (2)	Percent of Shares Beneficially Owned After the Offering (4)
Elite Classic Convertible Arbitrage Ltd.	650	650	0	*	21,311	21,311	0	*
Argent LowLev Convertible Arbitrage Fund Ltd.	4,090	4,090	0	*	134,098	134,098	0	*
Argent Classic Convertible Arbitrage Fund L.P.	6,010	6,010	0	*	197,049	197,049	0	*
Xavex Convertible Arbitrage 2 Fund	290	290	0	*	9,508	9,508	0	*
Kamunting Street Master Fund, Ltd.	50,000	50,000	0	*	1,639,344	1,639,344	0	*
Highfields Capital I LP (5)	3,196	3,196	0	*	598,455	104,786	493,669	*
Highfields Capital II LP (5)	7,721	7,721	0	*	1,448,205	253,147	1,195,058	1.41%
Highfields Capital III L.P. (5)	33,083	33,083	0	*	5,646,041	1,084,689	4,561,352	5.38%
Partners Group Alternative Strategies PCC LTD	1,830	1,830	0	*	60,000	60,000	0	*
Dow Employees Pension Plan Union Carbide Employees Pension Plan	1,350	1,350	0	*	44,262	44,262	0	*
Qwest Occupational Health Trust	600	600	0	*	19,672	19,672	0	*
Qwest Pension Trust	250	250	0	*	8,196	8,196	0	*
Virginia Retirement System	1,400	1,400	0	*	45,901	45,901	0	*
Zazove Convertible Securities Fund, Inc.	4,400	4,400	0	*	144,262	144,262	0	*
Zazove Aggressive Growth Fund, L.P.	1,800	1,800	0	*	59,016	59,016	0	*
Merrill, Lynch, Pierce, Fenner & Smith, Inc. (6)	3,700	3,700	0	*	121,311	121,311	0	*
Century National Insurance Company	3,000	3,000	0	*	98,360	98,360	0	*
Deerfield Partners, L.P.	900	900	0	*	29,508	29,508	0	*
Deerfield International Limited	3,519	3,519	0	*	115,377	115,377	0	*
ING Equity Income Fund	5,481	5,481	0	*	179,704	179,704	0	*
UIF Equity Income Fund	1,600	1,600	0	*	52,459	52,459	0	*
US Allianz Equity Income Fund	785	785	0	*	25,737	25,737	0	*
Van Kampen Equity Income Fund	310	310	0	*	10,163	10,163	0	*
Morgan Stanley Fundamental Value Fund	27,000	27,000	0	*	885,245	885,245	0	*
HFR CA Global Opportunity Master Trust	250	250	0	*	8,196	8,196	0	*
Forest Global Convertible Master Fund, L.P.	4,987	4,987	0	*	163,508	163,508	0	*
Institutional Benchmarks Master Fund Ltd.	14,350	14,350	0	*	470,491	470,491	0	*
LLT Limited	3,076	3,076	0	*	100,852	100,852	0	*
Alpine Partners, L.P.	3,228	3,228	0	*	105,836	105,836	0	*
Alpine Associates	1,406	1,406	0	*	46,098	46,098	0	*
	9,837	9,837	0	*	322,524	322,524	0	*

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Alpine Associates II, L.P.	780	780	0	*	25,573	25,573	0	*
Good Steward Trading Co., SPC Class F	213	213	0	*	6,983	6,983	0	*
Credit Suisse Securities (USA) LLC (7)	6,000	6,000	0	*	196,721	196,721	0	*
D.E. Shaw Valence Portfolios, L.L.C.	25,000	25,000	0	*	819,672	819,672	0	*

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Name	Series A Preferred Stock			Common Stock				
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Number of Shares Beneficially Owned Prior to Offering	Number of Shares that may be Offered Hereby (1)	Number of Shares to be Owned After Completion of the Offering (2)	Percent of Shares Beneficially Owned After the Offering (2)	Number of Shares Beneficially Owned Prior to Offering	Number of Shares that may be Offered Hereby (1) (3)	Number of Shares to be Owned After Completion of the Offering (2)	Percent of Shares Beneficially Owned After the Offering (4)
Lyxor / Forest Fund Limited	17,819	17,819	0	*	584,229	584,229	0	*
Forest Multi Strategy Master Fund SPC	406	406	0	*	13,311	13,311	0	*
HFR RVA Select Performance Master Trust	634	634	0	*	20,786	20,786	0	*
Stark Master Fund Ltd.	10,000	10,000	0	*	327,868	327,868	0	*
All other holders of Series A Preferred Stock (and future transferees, distributees, pledges donees or successors of such holders) (8) (9)	139,049	139,049	0	*	4,558,983	4,558,983	0	*

\* Less than 1%

- Unless otherwise indicated, each Preferred Selling Securityholder may offer any or all of the Series A Preferred Stock it beneficially owns and any of the Common Stock issuable upon conversion of the Series A Preferred Stock.
- Assumes the sale of all shares of Series A Preferred Stock and Common Stock offered pursuant to this prospectus.
- Assumes conversion of all of the Preferred Selling Securityholders' shares of Series A Preferred Stock at the conversion rate of 32.786885 shares of common stock per share of Series A Preferred Stock. This conversion rate is subject to certain adjustments as described in the Series A Preferred Stock certificate of designations. Accordingly, the number of shares of common stock that may be issued upon conversion of the Series A Preferred Stock may be adjusted from time to time. Fractional shares will not be issued upon conversion of the Series A Preferred Stock. Cash will be paid instead of fractional shares, if any. Assumes that no dividends on Series A Preferred Stock will be paid in shares of Common Stock.
- This percentage is calculated using as the numerator the number of shares of Common Stock included in column (g) and as the denominator 78,684,549 shares of Common Stock issued and outstanding, net of treasury shares, on February 15, 2007, plus the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock held by the Preferred Selling Securityholders included in column (f).
- Highfields Capital Management LP, Highfields GP LLC, Highfields Associates LLC, Mr. Jonathon S. Jacobson, and Mr. Richard L. Grubman, may be deemed to beneficially own 7,692,701 shares of our common stock and share the power to vote or direct the vote, and the power to dispose or direct the disposition of these shares. In addition, Highfields Capital I LP, Highfields Capital II LP and Highfields Capital III L.P. beneficially own \$4,177,000, \$10,107,000 and \$38,716,000 aggregate principal amount, respectively, of our 10.75% Senior Notes due 2016.
- An affiliate of Merrill, Lynch, Pierce, Fenner & Smith, Inc. (Merrill) also served as an initial purchaser of our \$375 million aggregate principal amount floating rate senior notes due 2014 and \$625 million aggregate principal amount 10.75% senior notes due 2016. In addition, an affiliate of Merrill served as administrative agent for, and held borrowings under, our interim loan agreement dated March 10, 2006, which borrowings we repaid in full in June 2006. Merrill and certain of its affiliates also served as co-lead arranger and joint bookrunner in connection with our Credit Agreement, and receive customary fees and expense reimbursements. Merrill and its affiliates have performed investment banking, commercial banking and advisory services for the Company and its affiliates in the ordinary course of business, for which they have received customary fees and expense reimbursements. Merrill and its affiliates may, from time to time, engage in transactions with and perform services for the Company and its affiliates in the ordinary course of business. From time to time, Merrill and its affiliates may effect transactions for their own account or the account of customers, including hedging such positions, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans.
- Credit Suisse Securities (USA) LLC (Credit Suisse) is also a holder of 963,380 Warrants. In addition, Credit Suisse or one or more of its affiliates was the lender, administrative agent, syndication agent and arranger under our Senior Subordinated Credit Agreement, dated as of January 16, 2004 and also arranged

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an amendment to this facility as administrative agent in 2005, and received customary fees in connection therewith. Credit Suisse has also acted as solicitation agent in soliciting consents related to various series of our senior notes, which are no longer outstanding, and received customary fees in connection therewith. Credit Suisse also served as a financial advisor to the Company during the period from July 2003 to June 2004, and received customary fees in connection therewith. Certain affiliates of Credit Suisse are also lenders under our Credit Agreement, dated as of March 10, 2006, as amended.

- (8) Information concerning other Preferred Selling Securityholders will be set forth in prospectus supplements or in an amendment to the registration statement of which this prospectus is a part if and when necessary. Totals in these columns may exceed the number of shares of Series A Preferred Stock and common stock offered by this prospectus as a result of the Preferred Selling Securityholders identified above having sold, transferred or otherwise disposed of some or all of their shares of Series A Preferred Stock since the date on which the information in the preceding table was provided to us without informing us of such sale(s). In no event will the number of shares of Series A Preferred Stock offered by this prospectus exceed 400,000 shares. Similarly, the total number of shares of our common stock

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issuable upon the conversion of all the Series A Preferred Stock may increase or decrease due to adjustments to the conversion rate. Pursuant to Rule 416 under the Securities Act, the registration statement of which this prospectus is a part also covers any additional shares of our common stock which become issuable in connection with such shares because of any stock dividend, stock split, recapitalization or other similar event or adjustment in the number of shares issuable as provided by the terms of the Series A Preferred Stock.

- (9) Assumes that all other holders of Series A Preferred Stock (and future transferees, pledgees, donees or successors of such holders) do not beneficially own any shares of our common stock other than the shares issuable upon conversion of the Series A Preferred Stock.

**Warrants**

Pursuant to the terms of our former Senior Subordinated Credit Agreement, dated January 16, 2004, among the Company, Credit Suisse First Boston, and the lenders named therein, we agreed to issue to such lenders an aggregate of 10,000,000 Warrants, entitling the holder thereof to purchase 2,000,000 shares of common stock of the Company, par value \$0.01 per share, at an exercise price of \$32.50 per share, in each case, as applicable, adjusted on account of the one-for-five reverse stock split of our common stock effective October 25, 2006.

The selling securityholders listed below and their transferees, pledgees, donees or other successors, if not identified in this prospectus then so identified in supplements to this prospectus or in an amendment to the registration statement of which this prospectus forms a part, as required, are the Warrant Selling Securityholders under this prospectus, and, together with the Preferred Selling Securityholders, the Selling Securityholders. The following table sets forth for each Warrant Selling Securityholder, as of a recent practicable date prior to the effectiveness of the registration statement of which this prospectus forms a part:

the name of each Warrant Selling Securityholder;

the number of Warrants and the number of shares of our common stock issuable upon exercise that may be sold by the Warrant Selling Securityholders; and

the number and percent of shares of common stock to be beneficially owned by each Warrant Selling Securityholder before and after the offering.

The information is based on information provided by or on behalf of the Warrant Selling Securityholders to us in Warrant Selling Securityholder questionnaires and is as of the date specified by the holders of the questionnaires. We have not sought to verify the information contained in the table. Because the Warrant Selling Securityholders may offer all or some portion of these securities pursuant to this prospectus, and because we are not currently aware of any agreements, arrangements or understandings with respect to the sale of these securities, we cannot predict the number of shares or principal amount of the securities that will be held by the Warrant Selling Securityholders upon termination of this offering. In addition, some of the Warrant Selling Securityholders may have sold, transferred or otherwise disposed of all or a portion of their securities since the date on which they provided the information about themselves and the securities they were selling in transactions exempt from the registration requirements of the Securities Act. See Plan of Distribution.

Unless otherwise disclosed in the footnotes to the table below, no Warrant Selling Securityholder has, or within the past three years has had, any position, office or other material relationship with us or any of our predecessors or affiliates.

Name	Number of Warrants Beneficially Owned Prior to Offering	Number of Warrants that may be Offered Hereby (1)	Percentage of Outstanding Warrants	Shares of Common Stock Beneficially Owned Prior to Offering		Shares of Common Stock Beneficially Owned After Offering	
				Number	Percent (2)	Number	Percent (2)
Stanfield Offshore Leveraged Assets, Ltd.	84,507	84,507	*	0	*	0	*
King Street Capital, L.P	69,046	69,046	*	0	*	0	*
King Street Capital, Ltd.	146,722	146,722	1.47%	0	*	0	*
Concordia Distressed Debt Fund, L.P.	84,507	84,507	*	0	*	0	*



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Name	Number of Warrants Beneficially Owned Prior to Offering	Number of Warrants that may be Offered Hereby (1)	Percentage of Outstanding Warrants	Shares of Common Stock Beneficially Owned Prior to Offering		Shares of Common Stock Beneficially Owned After Offering	
				Number	Percent (2)	Number	Percent (2)
Credit Suisse Securities (USA) LLC (3)	963,380	963,380	9.6%	0	*	0	*
GSO Credit Opportunities Fund (Helios), LP	416,725	416,725	4.2%	0	*	0	*
Ore Hill Hub Fund Ltd.	488,380	488,380	4.9%				
All other holders of the Warrants (and future transferees, distributees, pledges donees or successors of such holders) (4) (5)	7,746,733	7,746,733	77.5%				

\* Less than 1%

- (1) Assumes exercise of the entire amount of Warrants held by the Warrant Selling Securityholder at a rate of one-fifth of a share of our Common Stock per Warrant. The number of shares of Common Stock issuable upon exercise of the Warrants may be adjusted under circumstances described under Description of Warrants Adjustments. Under the terms of the Warrants, cash will be paid instead of issuing any fractional shares.
- (2) This percentage is calculated using as the numerator the number of shares of Common Stock included in the previous column and as the denominator 78,684,549 shares of Common Stock issued and outstanding, net of treasury shares, on February 15, 2007.
- (3) Credit Suisse Securities (USA) LLC ( Credit Suisse ) is also a holder of 6,000 shares of our Series A Preferred Stock. In addition, Credit Suisse or one or more of its affiliates was the lender, administrative agent, syndication agent and arranger under our Senior Subordinated Credit Agreement, dated as of January 16, 2004 and also arranged an amendment to this facility as administrative agent in 2005, and received customary fees in connection therewith. Credit Suisse has also acted as solicitation agent in soliciting consents related to various series of our senior notes, which are no longer outstanding, and received customary fees in connection therewith. Credit Suisse also served as a financial advisor to the Company during the period from July 2003 to June 2004, and received customary fees in connection therewith. Certain affiliates of Credit Suisse are also lenders under our Credit Agreement, dated as of March 10, 2006, as amended.
- (4) Information concerning other Warrant Selling Securityholders will be set forth in prospectus supplements or in an amendment to the registration statement of which this prospectus is a part if and when necessary. Totals in these columns may exceed the number of Warrants and common stock offered by this prospectus as a result of the Warrant Selling Securityholders identified above having sold, transferred or otherwise disposed of some or all of their Warrants since the date on which the information in the preceding table was provided to us without informing us of such sale(s). In no event will the number of Warrants offered by this prospectus exceed 10,000,000. Similarly, the total number of shares of our common stock issuable upon the exercise of all the Warrants may increase or decrease due to adjustments to the exercise price and the number of shares issuable upon exercise of the Warrants. Pursuant to Rule 416 under the Securities Act, the registration statement of which this prospectus is a part also covers any additional shares of our common stock which become issuable in connection with the Warrants because of any stock dividend, stock split, recapitalization or other similar event or adjustment in the number of shares issuable upon exercise of the Warrants.
- (5) Assumes that all other holders of the Warrants (and future transferees, distributees, pledgees, donees or successors of such holders) do not beneficially own any shares of our common stock.



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**PLAN OF DISTRIBUTION**

The Series A Preferred Stock and the Warrants are being registered to permit public secondary trading of the offered securities by the holders thereof from time to time after the date of this prospectus. Under the terms of the registration rights agreement entered into with representatives of the holders of the Preferred Stock and the Warrants, we have agreed, among other things, to pay substantially all of the expenses incidental to the registration and sale of the securities covered by this prospectus.

We will not receive any of the proceeds from the offering by the selling securityholders of the Warrants, the Series A Preferred Stock or the shares of common stock into which the Series A Preferred Stock is convertible or for which the Warrants may be exercised, except with respect to the Warrants under certain circumstances described in greater detail under the heading **Use of Proceeds**.

We cannot assure you that any selling securityholder will sell all or any portion of the securities offered under this prospectus or that any selling securityholder will not transfer, devise or gift its securities by other means not described in this prospectus.

The selling securityholders and any brokers, dealers or agents who participate in the distribution of the securities covered by this prospectus may be deemed to be underwriters, and any profits on the sale of the securities by them and any discounts, commissions or concessions received by any brokers, dealers or agents may be deemed to be underwriting discounts and commissions under the Securities Act. To the extent the selling securityholders may be deemed to be underwriters, the selling securityholders may be subject to some statutory liabilities of the Securities Act, including, but not limited to, Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act. If the selling securityholders are deemed to be underwriters, they will be subject to the prospectus delivery requirements of the Securities Act.

The securities offered hereby may be sold from time to time directly by the selling securityholders or, alternatively, through underwriters, broker-dealers or agents. If the securities covered by this prospectus are sold through underwriters or broker-dealers, the selling securityholder will be responsible for underwriting discounts or commissions or agent's commissions. Such securities may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. Such sales may be effected in transactions (which may involve block transactions) (i) on any national securities exchange or quotation service on which the securities covered by this prospectus may be listed or quoted at the time of sale, (ii) in the over-the-counter market or (iii) in transactions otherwise than on such exchanges or services or in the over-the-counter market. The selling securityholders may also loan or pledge the securities offered hereby to broker-dealers that in turn may sell such securities.

The selling securityholders may use any one or more of the following methods when selling securities covered by this prospectus: (i) block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (ii) short sales; and (iii) any other method permitted pursuant to applicable law. The selling securityholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades. In addition, the securities covered by this prospectus may be sold in private transactions or under Rule 144 under the Securities Act rather than under this prospectus.

The selling securityholders and any other person participating in the distribution will be subject to applicable provisions of the Exchange Act, including, without limitation, Regulation M, which may limit the timing of purchase and sales of any of the securities by the selling securityholders and any other person. Furthermore, under Regulation M, any person engaged in the distribution of the securities may not simultaneously engage in market-making activities with respect to the particular securities being distributed for particular periods prior to the commencement of the distribution. All of the foregoing may affect the marketability of these securities and the ability of any person or entity to engage in market-making activities with respect to the securities.

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Under the terms of the respective registration rights agreements relating to the Series A Preferred Stock and the Warrants, holders of the securities covered by this prospectus and we have agreed to indemnify each other against certain liabilities, including certain liabilities under the Securities Act and Exchange Act, or will be entitled to contribution in connection with those liabilities.

There is no public trading market for the shares of the Series A Preferred Stock or the Warrants and we have not applied and do not intend to apply for listing of the shares of the Series A Preferred Stock or the Warrants on any national securities exchange or for quotation of the shares on any automated quotation system. No assurances can be given as to the liquidity of the trading market for the shares of the Series A Preferred Stock or the Warrants or that an active public market for those shares will develop. If an active market for the Warrants or the shares of the Series A Preferred Stock does not develop, the market price and liquidity of those shares may be adversely affected. If the shares of the Series A Preferred Stock or the Warrants are traded, they may trade at a discount from their initial offering price, depending on the market for similar securities, our performance and other factors.

We have agreed, subject to certain rights to suspend use of the shelf registration statement, to use reasonable best efforts to keep the shelf registration statement effective until the earliest of (a) the sale of all registrable securities registered under the shelf registration statement; (b) two years from the last date of original issuance of the securities (or for such other period as shall be required by Rule 144(k) of the Securities Act of 1993, as amended, or any successor provision thereto); and (c) the date on which the Preferred Stock and the Warrants and any shares of common stock issued in conversion or upon exercise thereof (1) cease to be outstanding or (2) have been resold pursuant to Rule 144.

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**DESCRIPTION OF THE SERIES A PREFERRED STOCK**

The Series A Preferred Stock was issued under a certificate of designations in a private transaction that was not subject to the registration requirements of the Securities Act. The following is a summary of certain provisions of the certificate of designations for our Series A Preferred Stock. A copy of the certificate of designations and the form of Series A Preferred Stock share certificate is available upon request from us at the address set forth under the Section [Where to Find More Information](#) . The following summary of the terms of Series A Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the certificate of designations. As used in this section, the terms the Company , us , we or our refer to HealthSouth Corporation and not any of its current or future subsidiaries.

**General**

Under our restated certificate of incorporation, our board of directors is authorized, without further stockholder action, to issue up to 1,500,000 shares of preferred stock, par value \$0.10 per share, in one or more series, with such voting powers, full or limited, or no voting powers, and such preferences and such relative, participating, optional or other special rights, with such qualifications, limitations or restrictions of such preferences or rights, as shall be set forth in the resolutions providing therefor.

When issued, the Series A Preferred Stock was, and any common stock issued upon the conversion of the Series A Preferred Stock will be, fully paid and nonassessable. The holders of the Series A Preferred Stock have no preemptive or preferential right to purchase or subscribe for stock, obligations, Warrants or other securities of the Company of any class. The transfer agent, registrar, conversion and dividend disbursing agent for shares of both the Series A Preferred Stock and common stock of the Company is Mellon Investor Services, LLC.

The Series A Preferred Stock is subject to forced conversion, as described below under the caption [Forced Conversion](#) .

Under Delaware law, we may pay dividends on our Series A Preferred Stock, whether in cash or in shares of our common stock, out of our surplus, which, under Delaware law, is the amount by which our total assets exceeds the sum of:

our total liabilities, including our contingent liabilities, and

the amount of our capital.

If there is no surplus, dividends may be paid out of our net profits for the fiscal year in which the payment occurs and/or the preceding fiscal year. When required to make a determination of availability of surplus, the amount of our total assets and liabilities and the amount of our capital will be determined by our board of directors in accordance with Delaware law.

**Ranking**

The Series A Preferred Stock, with respect to dividend rights or rights upon our liquidation, winding-up or dissolution, ranks:

senior to all classes of our common stock and each other class of capital stock or series of preferred stock established after the Issue Date of the Series A Preferred Stock, the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as *Junior Stock* );

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on a parity with any class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank on a parity with the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as *Parity Stock* );

junior to each class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank senior to the Series A Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as *Senior Stock* ); and

junior to all of our existing and future debt obligations and other liabilities, including claims of trade creditors.

While any shares of Series A Preferred Stock are outstanding, we may not authorize or issue any class or series of Senior Stock (or any security convertible into Senior Stock) without the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable. Without the consent of any holder of Series A Preferred Stock, however, we may authorize, increase the authorized amount of, or issue any class or series of Parity Stock or Junior Stock. See *Voting Rights* below.

## **Dividends**

Holders of shares of Series A Preferred Stock are entitled to receive, when, as and if declared by our board of directors out of funds legally available for payment, and to the extent we are in compliance with our credit facilities, our debt indentures and our other then-existing debt instruments, cash dividends at the rate per annum of 6.50% per share on the liquidation preference thereof (the *Liquidation Preference* ), which, based upon the initial Liquidation Preference of \$1,000 per share of Series A Preferred Stock, is equivalent to \$65.00 per share annually. As further described below, the Liquidation Preference is subject to accretion in the event we do not pay accrued dividends on any Dividend Payment Date (as defined below).

Additional dividends will be payable under the circumstances described below under *Transfer Restrictions; Registration Rights* . All references to dividends shall be deemed to include such additional dividends if such additional dividends are then payable.

If we determine in good faith (which determination shall be conclusive) that we are prohibited by the terms of our credit facilities, our debt indentures or any of our other then-existing debt instruments from paying cash dividends on the Series A Preferred Stock, we may pay dividends in shares of common stock (or a combination of cash and shares of common stock), as described below (including with respect to the valuation of such common stock) under the caption *Method of Payment of Dividends*.

Dividends on the Series A Preferred Stock are payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, or the following business day if such date is not a business day (each, a *Dividend Payment Date* ), at the annual rate set forth above, and shall accrue from the most recent date as to which dividends shall have been paid or, in the case of the initial dividend, from the Issue Date, whether or not in the relevant dividend period there have been funds legally available for the payment of such dividends.

Each dividend on our Series A Preferred Stock, if declared, based upon the initial Liquidation Preference of \$1,000 per share of Series A Preferred Stock, will be \$16.25 per share. Dividends will be payable to holders of record as they appear on our stock register on the immediately preceding January 1, April 1, July 1 and October 1, or the following business day if such date is not a business day (each, a *Record Date* ). Dividends payable on the Series A Preferred Stock for any period other than a full dividend period (based upon the number of days elapsed during the period) will be computed on the basis of a 360-day year consisting of twelve 30-day months.

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If we are unable to, or otherwise do not, pay accrued dividends in full on the Series A Preferred Stock on any Dividend Payment Date as described above, the Liquidation Preference will be increased as of the first day immediately following such Dividend Payment Date by the accretion amount in respect of the unpaid dividends. The accretion amount per share of Series A Preferred Stock for any Dividend Payment Date on which accrued dividends are not paid in full will be calculated by multiplying:

the accretion rate of 8.0% per year, calculated on a quarterly basis, by

the Liquidation Preference as of such Dividend Payment Date, by

the fraction of the accrued dividends that were not paid on the Dividend Payment Date.

The Liquidation Preference as of any date will equal the initial Liquidation Preference of \$1,000 per share increased, as described above, as the result of us not distributing dividends on prior Dividend Payment Dates and decreased to the extent we have made any payments described in the next paragraph. The amount of dividends payable for any period following a Dividend Payment Date on which there is a non-payment of dividends will be calculated on the basis of the accreted Liquidation Preference as of the first day of such period.

We may pay all or a portion of the amount by which the Liquidation Preference exceeds \$1,000 per share of Series A Preferred Stock on any Dividend Payment Date or on any other date in cash only. The Liquidation Preference per share of Series A Preferred Stock will be reduced by the amount of such payment. Accordingly, if we pay all of such excess in cash on any Dividend Payment Date or on any other date, the Liquidation Preference will return to the initial Liquidation Preference, and the amount of subsequent dividend payments will be calculated on the basis of the initial Liquidation Preference for the period of time from the date of such reduction until the applicable Dividend Payment Date.

The persons entitled to receive such payment will be holders of our Series A Preferred Stock as they appear on our stock register on a date selected by the board of directors or an authorized committee. That date must (1) not precede the date our board of directors or an authorized committee of our board declares such payment payable and (2) not be more than 60 days prior to the date such payment is paid.

If we pay a portion of the dividends payable on the Series A Preferred Stock on a Dividend Payment Date and accrete the unpaid portion as described above, we will pay the current portion equally and ratably to the holders of Series A Preferred Stock.

We will use our reasonable best efforts to provide notice to the holders of the Series A Preferred Stock not later than ten days prior to a Dividend Payment Date if we determine that we will not pay dividends on that Dividend Payment Date. We will provide such notice by notifying the transfer agent and by issuing a press release. If a development occurs less than ten days prior to a Dividend Payment Date that will prevent us from paying dividends on such date, and we have not already provided notice, we will provide prompt notice to the holders and the transfer agent as set forth above. The notice will indicate whether we will accrete all or a portion of the dividends, the amount of the dividends to be accreted and whether the portion of dividends to be paid, if any, will be paid in cash or in common stock. Notwithstanding the foregoing, our failure (if any) to deliver such notice will not impair our ability to accrete payment of dividends in any respect.

We are only obligated to pay a dividend on our Series A Preferred Stock if our board of directors or an authorized committee of our board declares the dividend payable and we have assets that legally can be used to pay the dividend. The terms of our senior credit facility and the terms of our debt indentures limit our ability to pay cash dividends on the Series A Preferred Stock. Dividends on the Series A Preferred Stock, if paid in cash, and based upon the initial Liquidation Preference of \$1,000 per share of Series A Preferred Stock, would amount to approximately \$26 million in the aggregate for each full four-quarter period. See Risk Factors Risks Related to the Series A Preferred Stock .

No dividends or other distributions (other than a dividend or distribution payable solely in shares of Parity Stock or Junior Stock (in the case of Parity Stock) or Junior Stock (in the case of Junior Stock) and cash in lieu of

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fractional shares) may be declared, made or paid, or set apart for payment upon, any Parity Stock or Junior Stock, nor may any Parity Stock or Junior Stock be redeemed, purchased or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any Parity Stock or Junior Stock) by us or on our behalf (except by conversion into or exchange for shares of Parity Stock or Junior Stock (in the case of Parity Stock) or Junior Stock (in the case of Junior Stock)) unless all accrued and unpaid dividends (other than any accrued and unpaid dividends that have already resulted in accretion of the Liquidation Preference) have been