CONTINENTAL MEDICAL SYSTEMS INC /DE/
Form 424B5
November 16, 2009
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This preliminary prospectus supplement and the accompanying prospectus relate to an effective registration statement under the Securities Act of 1933. The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus do not constitute an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where an offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
File No. 333-151848

Subject to completion, dated November 16, 2009

Preliminary prospectus supplement

To prospectus dated November 16, 2009

$290,000,000

HealthSouth Corporation

% Senior Notes due

We are offering $290 million aggregate principal amount of our % Senior Notes due . We will pay interest on the notes semiannually in arrears on February and August of each year, beginning on February , 2010. The notes will mature on .

We may redeem the notes, in whole or in part, at any time on or after , 2015, at the redemption prices set forth in this prospectus supplement. Prior to , 2013, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to % of their principal amount, plus accrued and unpaid interest thereon, if any, to the redemption date, provided that at least 65% of the aggregate principal amount of the notes remains outstanding after giving effect to such redemption. In addition, at any time prior to , 2015, we may at our option redeem all or a portion of the notes, at a redemption price equal to 100% of their principal amount plus a make-whole premium, plus accrued and unpaid interest thereon, if any, to the redemption date. See Description of Notes Optional Redemption . If we experience specific kinds of changes in control, we must offer to purchase the notes.

The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our subsidiary guarantors. The notes will rank equal in right of payment to our current and future senior debt and will rank senior in right of payment to any future subordinated debt. The notes will be effectively subordinated to our current and future secured debt, including borrowings under our senior secured credit facilities, to the extent of the value of the assets securing such debt. In addition, the notes and the guarantees will be effectively subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.

The notes will not be listed on any securities exchange. We expect that delivery of the notes will be made to investors in book-entry form through the facilities of The Depository Trust Company on or about , 2009.

Investing in the notes involves risks. You should carefully read and consider the risk factors beginning on page S-7 of this prospectus supplement, page 3 of the accompanying prospectus and in our periodic reports and other information that we file with the Securities and Exchange Commission before you invest in the notes.

	Price	Underwriting	Proceeds, before expenses, to

	to public	discount	HealthSouth Corporation
Per Note	%	%	%
Total	$	$	$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from , 2009 to the date of delivery. The proceeds to HealthSouth Corporation set forth above do not take into account offering expenses.

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

Joint book-running managers

J.P. Morgan **Barclays Capital** **Goldman, Sachs & Co.**

The date of this prospectus supplement is November , 2009.

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus filed by us with the Securities and Exchange Commission (the SEC). We have not, and the underwriters have not, authorized anyone else to provide you with different or additional information. If anyone provides you with any other information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer and sale is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus, any free writing prospectus or any document incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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It is expected that delivery of the notes will be made against payment therefor on or about the date specified on the cover of this prospectus supplement, which is the tenth business day following the date of pricing of the notes (such settlement cycle being referred to as T+10). You should note that trading of the notes on the date of pricing or on the next succeeding six business days may be affected by the T+10 settlement. See Underwriting for additional information.

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About this prospectus supplement

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

We provide information to you about this offering in two separate documents. The accompanying prospectus provides general information about us and the securities we may offer from time to time. This prospectus supplement describes the specific details regarding this offering. Additional information is incorporated by reference in this prospectus supplement. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

Forward-looking statements

This prospectus supplement contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to future events, our 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, potent the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

- each of the factors incorporated herein by reference and discussed under the heading Risk Factors, starting on page S-7 of this prospectus supplement;
- changes or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors;
- our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing shortages;
- changes in the regulations of the healthcare industry at either or both of the federal and state levels;
- competitive pressures in the healthcare industry and our response to those pressures;
- our ability to successfully access the credit markets on favorable terms; and
- general conditions in the economy and capital markets.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

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Summary

The following summary is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this prospectus supplement. Because this is a summary, it may not contain all the information that may be important to you. You should read the entire prospectus supplement together with the accompanying prospectus, as well as the information incorporated by reference herein, before making an investment decision.

Company overview

We operate inpatient rehabilitation hospitals and long-term acute care hospitals, or LTCHs , and provide treatment on both an inpatient and outpatient basis. As of September 30, 2009, we operated 94 inpatient rehabilitation hospitals (including 3 hospitals that operate as joint ventures which we account for using the equity method of accounting), 6 freestanding LTCHs, 44 outpatient rehabilitation satellites (operated by our hospitals), and 25 licensed, hospital-based home health agencies. In addition to HealthSouth hospitals, we manage six inpatient rehabilitation units and one outpatient satellite through management contracts. Our inpatient hospitals are located in 26 states, with a concentration of hospitals in Texas, Pennsylvania, Florida, Tennessee, and Alabama. We also have two hospitals in Puerto Rico.

We are the nation s largest provider of inpatient rehabilitative healthcare services in terms of revenues, number of hospitals, and patients treated and discharged. Our inpatient rehabilitation hospitals offer specialized rehabilitative care across a wide array of diagnoses and deliver comprehensive patient care services. The majority of patients we serve experience significant physical disabilities due to medical conditions, such as strokes, hip fractures, head injury, spinal cord injury, and neurological disorders, that are non-discretionary in nature and which require rehabilitative services in an inpatient setting. Our team of highly skilled physicians, nurses, and physical, occupational, and speech therapists utilize the latest in equipment and techniques to return patients to home and work. Patient care is provided by nursing and therapy staff as directed by a physician order. Internal case managers monitor each patient s progress and provide documentation of patient status, achievement of goals, discharge planning, and functional outcomes. Our hospitals provide a comprehensive interdisciplinary clinical approach to treatment that leads to what we believe is a higher level of care and superior outcomes.

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

Recent developments

The tender offer and consent solicitation

On November 16, 2009, the Company commenced a cash tender offer for any and all of its outstanding Floating Rate Senior Notes due 2014 (the 2014 Notes), and a solicitation of consents to eliminate substantially all the restrictive covenants and certain events of default contained in the indenture governing the 2014 Notes. The total consideration payable in respect

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of 2014 Notes that are validly tendered, and for which the related consents are delivered, is $1,030 per $1,000 principal amount of the 2014 Notes, plus accrued but unpaid interest up to but excluding the settlement date. To be eligible to receive the total consideration, which includes an early tender amount of $30 per $1,000 principal amount of 2014 Notes, holders must tender their notes, and deliver the related consents, prior to 5:00 p.m., New York City time, on November 30, 2009 (the Early Tender Deadline). The tender offer is scheduled to expire at 12:00 midnight, New York City time, on December 14, 2009, unless the Company chooses to extend or earlier terminate the tender offer. The closing of this offering is conditioned upon the substantially concurrent acceptance for purchase by the Company of all of the 2014 Notes and related consents validly tendered (and not validly revoked) in the tender offer prior to the Early Tender Deadline. This prospectus supplement is not an offer to purchase the 2014 Notes and the tender offer and consent solicitation is made only by and pursuant to the terms of the Offer to Purchase and Consent Solicitation Statement dated November 16, 2009, as the same may be amended or supplemented.

Senior secured credit facilities

In October 2009, we amended our senior secured credit facilities (our Credit Agreement) to extend the maturity date of a portion of our term loan facility from March 2013 to March 2014, subject to an automatic extension to September 10, 2015 if the 2014 Notes have been repaid or refinanced prior to March 15, 2014, and to amend certain provisions of the Credit Agreement. The amendment converted $300 million of outstanding term loans into a new tranche of term loans that accrues interest at a rate of LIBOR plus 3.75%. The remainder of the term loan facility continues to accrue interest at LIBOR plus 2.25%. Both portions of the term loan facility continue to amortize at the per quarter rate of 0.25% of the principal outstanding. The other amendments to the Credit Agreement primarily permit future extensions of all or a portion of the term loans, revolving loans and synthetic letter of credit commitments, allowed us to issue senior secured and unsecured notes and increased amounts we can spend for acquisitions and selected debt repurchases.

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The offering

The following summary contains basic information about the notes and is not intended to be complete. It may not contain all the information that may be important to you. For a more complete description of the notes, see Description of Notes. In this summary of the offering, the words we, us, and our refer only to HealthSouth Corporation and not to any of its subsidiaries.

Issuer	HealthSouth Corporation
Notes	% Senior Notes due .
Aggregate principal amount	$290,000,000.
Date of maturity	The notes will mature on .
Interest	Interest will accrue at the rate of % per year. Interest on the notes will accrue from , 2009, and will be payable semiannually in arrears on February and August of each year, beginning on February , 2010.
Guarantees	The notes will be jointly and severally guaranteed on a senior unsecured basis by all of our existing and future subsidiaries that guarantee borrowings under our Credit Agreement (as defined below) or our outstanding 10.75% Senior Notes due 2016. However, certain of our subsidiaries will not guarantee the notes. For the nine months ended September 30, 2009, the non-guarantor subsidiaries represented in the aggregate approximately 29.7% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA. As of September 30, 2009, the non-guarantor subsidiaries held approximately 22.4% of our consolidated property and equipment, net. For a discussion of the risks relating to the guarantees, see Risk Factors Risks Related to the Notes Not all of our subsidiaries will be guarantors under the indenture governing the notes. The notes will be effectively junior to the indebtedness and other liabilities of our non-guarantor subsidiaries.
Ranking	The notes and the guarantees will be senior unsecured obligations of HealthSouth Corporation and our guaranteeing subsidiaries. The notes will rank equal in right of payment to our current and future senior debt and senior in right of payment to any subordinated debt. The notes will be effectively subordinated to our current and future secured debt, including borrowings under our Credit Agreement, to the extent of the value of the assets securing such debt. See Description of Notes Ranking . In addition, the notes and the guarantees will be effectively subordinated to any liabilities, including trade payables, of our non-guarantor subsidiaries.

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Optional redemption We may redeem the notes, in whole or in part, at any time on or after , 2015, at the redemption prices set forth in this prospectus supplement.

Prior to , 2013 we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, at a redemption price equal to % of their principal amount, plus accrued and unpaid interest thereon, if any, to the redemption date, if at least 65% of the aggregate principal amount of the notes remains outstanding after giving effect to such redemption.

In addition, at any time prior to , 2015, we may at our option redeem all or a portion of the notes, at a redemption price equal to 100% of principal amount plus a make-whole premium, plus accrued and unpaid interest thereon, if any, to the redemption date.

See Description of Notes Optional Redemption.

Change of control Upon the occurrence of a Change of Control (as defined in this prospectus supplement), each holder of the notes will have the right to require us to repurchase such holder s notes at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. See Description of Notes Change of Control.

Covenants The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to:

incur or guarantee indebtedness;

pay dividends on, or redeem or repurchase, our capital stock; or repay, redeem or repurchase our subordinated obligations;

issue or sell certain types of preferred stock;

make investments;

incur obligations that restrict the ability of our subsidiaries to make dividends or other payments to us;

sell assets;

engage in transactions with affiliates;

create certain liens;

enter into sale/leaseback transactions; and

merge, consolidate, or transfer all or substantially all of our assets.

These covenants are subject to important qualifications and exceptions, which are described under the heading Description of

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	Notes in this prospectus supplement. The limitations on our ability to make certain payments, including dividends on, or redemptions or repurchases of, our capital stock and repayments, redemptions or repurchases of our subordinated obligations, are based on a calculation of our net income since July 1, 2006 (rather than since the date of this offering) and equity issuances, conversion of debt to equity and return on certain investments subsequent to the date of this offering. Accordingly, as of September 30, 2009, we would have had the capacity to make certain payments of up to approximately $393.0 million under the indenture that governs the notes. See Description of Notes Certain Covenants Limitation on Restricted Payments for additional information.
Listing	The notes will not be listed on any securities exchange. Currently there is no public market for the notes.
Use of proceeds	We intend to use the net proceeds from the sale of the notes, together with cash on hand, to (i) pay the consideration required in connection with our tender offer for all of our outstanding 2014 Notes, including any applicable accrued and unpaid interest on such notes, and (ii) redeem any 2014 Notes that may remain outstanding following completion of the tender offer, including the payment of any applicable accrued and unpaid interest on such notes.
Conditions to the offering	The closing of this offering is conditioned upon the substantially concurrent acceptance for purchase by the Company of all of the 2014 Notes and related consents validly tendered (and not validly revoked) in the tender offer prior to the Early Tender Deadline. See Summary Recent Developments The Tender Offer and Consent Solicitation for additional information.
Additional notes	The indenture governing the notes does not limit the amount of notes, debentures or other evidence of indebtedness that we may issue under the indenture and provides that notes, debentures or other evidence of indebtedness may be issued from time to time in one or more series.
Risk factors	You should carefully consider all information set forth or incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, you should carefully read the section entitled Risk Factors beginning on page S-7 of this prospectus supplement before purchasing any of the notes.
Trustee	The Bank of Nova Scotia Trust Company of New York.
Governing law	The notes will be governed by the laws of the State of New York.

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Risk factors

Investing in the notes involves risks. In addition to the risk factors set forth below, you should carefully consider the risks described under the caption Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008 and described under the caption Risk Factors in the accompanying prospectus (which are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before making a decision to invest in our notes. Additional risks and uncertainties not currently known to us or that we currently consider immaterial could also have a material adverse effect on our business operations.

Risks related to the notes

Our substantial indebtedness may impair our financial condition and prevent us from fulfilling our obligations under the indenture governing the notes and our other debt instruments.

As of September 30, 2009, we had approximately $1.6 billion of long-term debt outstanding (including that portion of long-term debt classified as current and excluding $104.9 million in capital leases).

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

- making it more difficult for us to satisfy our obligations with respect to the notes;
- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes;
- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce availability of our cash flow to fund working capital, capital expenditures, acquisitions, execution of our business strategy and other general corporate purposes;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult for us to react quickly to, changing conditions;
- placing us at a competitive disadvantage compared with our competitors that have less debt; and
- exposing us to risks inherent in interest rate fluctuations because some of our borrowings will be at variable rates of interest, which could result in higher interest expense in the event of increases in interest rates.

We are required to use a substantial portion of our cash flow to service our debt. Although we expect to make scheduled interest payments and principal reductions, we cannot assure you that changes in our business or other factors will not occur that may have the effect of preventing us from satisfying obligations under the indenture governing the notes and our other debt instruments. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other needs, we may have to refinance all or a portion of our debt, obtain additional financing or reduce expenditures or sell assets that we deem necessary to our business. We cannot assure you that any of these measures would be possible or that any

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additional financing could be obtained. A return to recent tight credit markets will make additional financing more expensive and difficult to obtain. The inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations to you under the notes.

Despite current indebtedness levels, we may still be able to incur more debt. This could further exacerbate the risks associated with our substantial indebtedness.

Subject to specified limitations, the indenture governing the notes, the indenture governing our 10.75% Senior Notes due 2016 (our Fixed Rate Notes) and our Credit Agreement permit us and our subsidiaries to incur material additional debt. If new debt is added to our or any of our subsidiaries current debt levels, the risks described in the immediately preceding risk factor could intensify. See Description of Notes Certain Covenants Limitation on Indebtedness for additional information.

The restrictive covenants in our credit agreement, the indenture governing our fixed rate notes and the indenture governing the notes may affect our ability to operate our business successfully.

The indenture governing the notes, the indenture governing our Fixed Rate Notes and the terms of our Credit Agreement do, and our future debt instruments may, contain various provisions that limit our ability and the ability of certain of our subsidiaries to, among other things:

- incur additional indebtedness;
- make restricted payments;
- create certain liens;
- sell assets;
- enter into sale and leaseback transactions;
- issue or sell certain types of preferred stock;
- in the case of our restricted subsidiaries, restrict them from making dividends or other payments to us;
- in the case of our restricted subsidiaries, incur or guarantee debt;
- engage in transactions with affiliates;
- create unrestricted subsidiaries; and
- merge, consolidate or transfer all or substantially all of our assets and the assets of our subsidiaries (if any) on a consolidated basis.

These covenants could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities.

In addition, our Credit Agreement requires us to maintain specified financial ratios and satisfy certain financial condition tests. Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. Although we were in compliance with those ratios and tests as of

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September 30, 2009, we cannot assure you that we will continue to meet those tests or that the lenders will waive any failure to meet those tests. A severe downturn in earnings or a rapid increase in interest rates could impair our ability to comply with the financial covenants contained in our Credit Agreement. If we anticipated a potential covenant violation, we would seek relief from our lenders, which would have some cost to us, and such relief might not be on terms favorable to those in our existing Credit Agreement. A breach of any of these covenants or any other restrictive covenants contained in our Credit Agreement or the indenture could (after giving effect to applicable grace periods, if any) result in an event of default. If an event of default under our Credit Agreement or the indenture occurs, the holders of the affected indebtedness could declare all amounts outstanding, together with accrued interest, to be immediately due and payable, which, in turn, could cause the default and acceleration of the maturity of our other indebtedness. If we were unable to pay such amounts, the lenders under our Credit Agreement could proceed against the collateral pledged to them. We have pledged substantially all of our assets to the lenders under our Credit Agreement. In such an event, we cannot assure you that we would have sufficient assets to pay amounts due on the notes. As a result, you may receive less than the full amount you would otherwise be entitled to receive on the notes. See Note 8, *Long-term Debt* to the consolidated financial statements contained in our Current Report on Form 8-K filed with the SEC on November 16, 2009, which was filed for the purpose of updating the Company s previously issued annual financial statements and certain other financial information originally reported within our Annual Report on Form 10-K for the year ended December 31, 2008 (our Recast 8-K), and Item 2, *Properties* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and Description of Notes Certain Covenants in this prospectus supplement for additional information.

These restrictive covenants are subject to important exceptions and qualifications, including with respect to our ability to make restricted payments. As of September 30, 2009, the amount available for restricted payments under the indenture governing our Fixed Rate Notes was approximately $393.0 million. See Description of Notes Certain Covenants Limitation on Restricted Payments for additional information.

The notes and the guarantees will not be secured by any of our assets. Our Credit Agreement is secured and our senior lenders have a prior claim on substantially all of our assets.

The notes and the guarantees will not be secured by any of our assets. However, our Credit Agreement is secured by substantially all of our assets, including the stock of substantially all of our domestic wholly owned subsidiaries (including future subsidiaries, if any). If we become insolvent or are liquidated, or if payment under any of the instruments governing our secured debt is accelerated, the lenders under those instruments will be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to the instruments governing such debt. Accordingly, the lenders under our Credit Agreement have a prior claim on our assets securing the debt owed to them. In that event, because the notes and the guarantees will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy your claims in full.

As of September 30, 2009, we had $753.2 million of senior secured indebtedness (excluding $104.9 million of capital lease obligations), $400.0 million of available borrowing capacity under the revolving portion of our Credit Agreement and $300.0 million capacity under the incremental facility of our Credit Agreement. We will be permitted to borrow substantial additional secured indebtedness in the future under the terms of the indenture. See Description of Notes Certain Covenants Limitation on Indebtedness and Description of Notes Certain Covenants Limitation on Liens.

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Not all of our subsidiaries will be guarantors under the indenture governing the notes. The notes are effectively junior to the indebtedness and other liabilities of our non-guarantor subsidiaries.

Not all of our subsidiaries will guarantee the notes. The notes will be guaranteed by all of our current and future subsidiaries that guarantee borrowings under our Credit Agreement or incur or guarantee any outstanding capital markets debt. Certain of our 100% owned subsidiaries and all of our non-wholly owned subsidiaries, which are not guarantors of our Credit Agreement and through which we conduct a significant portion of our business, will not guarantee the notes due to, among other things, restrictions in their constituent documents or other agreements. The notes are effectively subordinated to the outstanding indebtedness and other liabilities, including trade payables, of our non-guarantor subsidiaries. Assuming we had completed this offering on September 30, 2009, these notes would have been effectively subordinated to approximately $190.2 million of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our non-guarantor subsidiaries.

The non-guarantor subsidiaries generated approximately 29.0% of our consolidated net operating revenues and approximately 24.2% of our Adjusted Consolidated EBITDA in 2008. For the nine months ended September 30, 2009, the non-guarantor subsidiaries represented in the aggregate approximately 29.7% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA. As of September 30, 2009, the non-guarantor subsidiaries held approximately 22.4% of our consolidated property and equipment, net. In the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us.

The lenders under the Credit Agreement will have the discretion to release the guarantors under the senior secured credit agreement under certain circumstances, which will cause those guarantors to be released from their guarantees of the notes.

While any obligations under the Credit Agreement remain outstanding, any guarantee of the notes may be released without action by, or consent of, any holder of the notes or the trustee under the indenture governing the notes, at the discretion of lenders under the Credit Agreement, if the related guarantor is no longer a guarantor of obligations under the Credit Agreement and does not have or guarantee any outstanding capital markets indebtedness. See Description of Notes. The lenders under the Credit Agreement will have the discretion to release the guarantees under the Credit Agreement under certain circumstances. Holders of the notes will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the notes, and the indebtedness and other liabilities, including trade payables, of those subsidiaries will effectively be senior to claims of any holder of the notes.

We may not have the funds to purchase the notes upon the change of control offer as required by the indenture governing the notes.

Upon a change of control, as defined in the indenture, subject to certain conditions, we are required to offer to repurchase all outstanding notes at 101% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the date of repurchase. The source of funds for that purchase of notes will be our available cash, cash generated from our operations or the operations of our subsidiaries or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any change of control to make required repurchases of notes tendered. In addition, the terms of our Credit Agreement will limit our ability to repurchase your notes and will provide that certain change of control events will constitute an event of default thereunder. Our future debt agreements may contain similar restrictions and provisions. If the holders of the notes exercise their right to require us to repurchase all the notes upon a change of control, the financial effect of this repurchase could cause a default under our other debt, even if the change of control itself would not cause a default. Accordingly, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of the notes and our other debt or that restrictions in our Credit Agreement and the indenture will not allow such repurchases. In addition, certain corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture. See Description of Notes Change of Control in this prospectus supplement for additional information.

There is no established trading market for the notes.

There is no existing trading market for the notes. We cannot assure you that an active trading market will develop for the notes. We do not intend to apply for listing of the notes on any securities exchange. If a market for the notes does not develop, you may not be able to resell your notes for an extended period of time, if at all. Consequently, your lenders may be reluctant to accept the notes as collateral for loans. Moreover, if markets for the notes do develop in the future, we cannot assure you that these markets will continue indefinitely or that the notes can be sold at a price equal to or greater than their initial offering price. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. The market for the notes, if any, may be subject to similar disruptions. Any such disruptions may materially adversely affect you as a holder of the notes. In addition, in response to prevailing interest rates and market conditions generally, as well as our performance, the notes could trade at a price lower than their initial offering price.

Federal and state statutes could allow courts, under specific circumstances, to void the subsidiary guarantees, subordinate claims in respect of the notes and require note holders to return payments received from subsidiary guarantors.

Under U.S. bankruptcy law and comparable provisions of state fraudulent transfer laws, a court could void a subsidiary guarantee or claims related to a guarantor or subordinate a subsidiary guarantee to all other debts of a subsidiary guarantor if, among other things, the subsidiary guarantor, at the time it incurred the indebtedness evidenced by its subsidiary guarantee:

- intended to hinder, delay or defraud any present or future creditor or received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the subsidiary guarantor s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond the subsidiary guarantor s ability to pay such debts as they mature.

In addition, a court could void any payment by a subsidiary guarantor pursuant to the notes or a subsidiary guarantee and require that payment to be returned to such subsidiary guarantor or to

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a fund for the benefit of the creditors of the subsidiary guarantor. The measures of insolvency for purposes of fraudulent transfer laws will vary depending upon the governing law in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a subsidiary guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that we will not be insolvent, will not have insufficient capital for the business in which we are engaged and will not have incurred debts beyond our ability to pay such debts as they mature. There can be no assurance, however, as to what standard a court would apply in making such determinations or that a court would agree with our or any subsidiary guarantors conclusions in this regard.

Risks related to our business

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

We derive a substantial portion of our net operating revenues from the Medicare and Medicaid programs. See Item 1, *Business*, Sources of Revenues, in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated by reference herein, for a table identifying the sources and relative payor mix of our revenues. Historically, Congress and some state legislatures have periodically proposed significant changes in regulations governing the healthcare system. Many of these changes have resulted in limitations on and, in some cases, significant reductions in the levels of payments to healthcare providers for services under many government reimbursement programs. For the period from April 1, 2008 through September 30, 2009, the 2007 Medicare Act reduced the Medicare reimbursement levels for inpatient rehabilitation hospitals to the levels existing in the third quarter of 2007. There can be no assurance that future governmental initiatives, including some proposals currently under consideration by Congress, would not result in pricing roll-backs or freezes. If we are not able to maintain increased case volumes to offset any future pricing roll-back or freeze, our operating results could be adversely affected. Our results could be further adversely affected by other changes in laws or regulations governing the Medicare and Medicaid programs, as well as possible changes to or expansion of the audit processes conducted by Medicare contractors or Medicare recovery audit contractors. For a discussion of the factors affecting reimbursement for our services, see Item 1, *Business*, Sources of Revenues Medicare Reimbursement in our Annual Report on Form 10-K for the year ended December 31, 2008, and the section entitled Executive Overview *Key Challenges* Potential Impact of Healthcare Reform in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, each of which is incorporated by reference herein.

In addition, there are increasing pressures from many third-party payors to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. Our relationships with managed care and non-governmental third-party payors, such as health

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maintenance organizations and preferred provider organizations, are generally governed by negotiated agreements. These agreements set forth the amounts we are entitled to receive for our services. We could be adversely affected in some of the markets where we operate if we are unable to negotiate and maintain favorable agreements with third-party payors.

Additionally, our third-party payors may, from time to time, request audits of the amounts paid to us under our agreements with them. We could be adversely affected in some of the markets where we operate if the audits uncover substantial overpayments made to us.

Uncertainty in the global credit markets could adversely affect our business and financial condition by making it more challenging for us to carry out our deleveraging and development objectives.

The global credit markets experienced significant disruptions in 2008, and economic conditions have remained volatile throughout 2009, resulting in very sensitive credit markets. Future market shocks could result in reductions in the availability of certain types of debt financing, including access to revolving lines of credit. Future business needs combined with market conditions at the time may cause us to seek alternative sources of potentially less attractive financing and may require us to adjust our business plan accordingly.

One risk related to credit market uncertainty is the possibility that a rapid increase in interest rates or a downturn in operating earnings could impair our ability to comply with the financial covenants contained within our Credit Agreement. Loans under our Credit Agreement bear interest at a rate of, at our option, 1-month, 2-month, 3-month, or 6-month LIBOR or the Prime rate, plus an applicable margin that varies depending upon our leverage ratio and corporate credit rating. Our primary covenants include a leverage ratio and an interest coverage ratio, with the interest coverage ratio being a four consecutive fiscal quarters test. A default due to violation of the covenants contained within our Credit Agreement could require us to immediately repay all amounts then outstanding under the Credit Agreement. Based on the current borrowing capacity and leverage ratio required under our Credit Agreement, we do not believe there is significant risk in our ability to make additional draws under our revolving credit facility, if needed.

As a result of credit market uncertainty, we also face potential exposure to counterparties who may be unable to adequately service our needs, including the ability of the lenders under our Credit Agreement to provide liquidity when needed. We monitor the financial strength of our depositories, creditors, derivative counterparties, and insurance carriers using publicly available information, as well as qualitative service experience inputs. We are generally confident that we will have access to our revolving credit facility.

We do not face substantial near-term refinancing risk. After giving effect to the offering of the notes and the application of the proceeds therefrom, as described in Use of Proceeds, the majority of our bonds that we expect to be outstanding will not mature until 2016, and $300.0 million of the outstanding principal amount of one tranche of our Term Loan Facility (as defined in Note 8, *Long-term Debt*, to the consolidated financial statements contained in our Recast 8-K, incorporated by reference herein) does not expire until 2015. Our revolving credit facility does not expire until 2012, and the other outstanding tranche under our Term Loan Facility, under which there is $453.2 million principal amount outstanding, matures in 2013.

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While our variable interest payments increase or decrease in accordance with changes in interest rates, the vast majority of the variation in these payments will be offset by net settlement payments or receipts on our interest rate swap that is not designated as a hedge. Therefore, our cash position is generally protected from such changes. Net settlement payments or receipts on this interest rate swap are included in the line entitled Loss on interest rate swap in our consolidated statements of operations.

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

Medicare providers also can be negatively affected by the adoption of coverage policies, either at the national or local levels, describing whether an item or service is covered and under what clinical circumstances it is considered to be reasonable, necessary, and appropriate. In the absence of a national coverage determination, local Medicare contractors may specify more restrictive criteria than otherwise would apply nationally. The Centers for Medicare and Medicaid Services is implementing new inpatient rehabilitation hospital coverage criteria effective January 1, 2010 that will require existing local coverage policies to be updated for each Medicare contractor. We cannot predict how the adoption of modified local coverage determinations or other policies will affect us. For a discussion of the new inpatient rehabilitation hospital coverage criteria effective January 1, 2010 see the section entitled Executive Overview Key Challenges Highly Regulated Industry in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, which is incorporated by reference herein.

Competition for staffing may increase our labor costs and reduce profitability.

Our operations are dependent on the efforts, abilities, and experience of our management and medical support personnel, such as physical therapists, nurses, and other healthcare professionals. We compete with other healthcare providers in recruiting and retaining qualified management and support personnel responsible for the daily operations of each of our hospitals. In some markets, the lack of availability of physical therapists, nurses, and other medical support personnel has become a significant operating issue to healthcare providers. This shortage may require us to continue to enhance wages and benefits to recruit and retain qualified personnel or to hire more expensive temporary personnel. We also depend on the available labor pool of semi-skilled and unskilled employees in each of the markets in which we operate. If our labor costs increase, we may not be able to raise rates to offset these increased costs. Because a significant percentage of our revenues consists of fixed, prospective payments, our ability to pass along increased labor costs is limited. Our failure to recruit and retain qualified management, physical therapists, nurses, and other medical support personnel, or to control our labor costs, could have a material adverse effect on our business, financial position, results of operations, and cash flows.

If we fail to comply with the extensive laws and government regulations applicable to healthcare providers, we could suffer penalties or be required to make significant changes to our operations.

As a healthcare provider, we are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

- licensure, certification, and accreditation,

- coding and billing for services,

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- requirements of the 60% compliance threshold under the 2007 Medicare Act,
- relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws,
- quality of medical care,
- use and maintenance of medical supplies and equipment,
- maintenance and security of medical records,
- acquisition and dispensing of pharmaceuticals and controlled substances, and
- disposal of medical and hazardous waste.

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

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

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

We operate in a highly competitive industry. Although we are the nation s largest provider of inpatient rehabilitative healthcare services, in any particular market we may encounter competition from local or national entities with longer operating histories or other competitive advantages. There can be no assurance that this competition, or other competition which we may encounter in the future, will not adversely affect our business, financial position, results of operations, or cash flows. In addition, weakening certificate of need laws in some states could potentially increase competition in those states.

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

Although we have settled the major litigation pending against us, we remain a defendant in a number of lawsuits and the material lawsuits are discussed in Note 21, *Contingencies and Other Commitments*, to the consolidated financial statements contained in our Recast 8-K, and Note 12, *Contingencies,* to the consolidated financial statements contained in our Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2009, each of which is incorporated by reference herein. Substantial damages and other remedies assessed against us could have a material adverse effect on our business, financial position, results of operations, and cash flows.

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If we fail to comply with our Corporate Integrity Agreement, or if the HHS-OIG determines we have violated federal laws governing kickbacks, false claims and self-referrals, we could be subject to severe sanctions, including substantial civil money penalties.

In December 2004, we entered into a Corporate Integrity Agreement (the CIA) with the Office of Inspector General of the United States Department of Health and Human Services (the HHS-OIG) to promote our compliance with the requirements of Medicare, Medicaid, and all other federal healthcare programs. We have also entered into two addendums to this agreement. The CIA expires at the end of 2009, subject to the HHS-OIG accepting and approving our annual report for 2009 that we will submit in the first half of 2010. Under the agreement and addendums, we are subject to certain administrative requirements and are subject to review of certain Medicare cost reports and reimbursement claims by an Independent Review Organization (see Note 20, *Settlements*, to the consolidated financial statements contained in our Recast 8-K). Our failure to comply with the material terms of the CIA could lead to suspension or exclusion from further participation in federal healthcare programs, including Medicare and Medicaid, which currently account for a substantial portion of our revenues. Further, if the HHS-OIG determines that we have violated the anti-kickback laws, the False Claims Act or the federal Stark statute s general prohibition on physician self-referrals, we may be subject to significant civil monetary penalties, and may be excluded from further participation in federal healthcare programs. Any of these sanctions would have a material adverse effect on our business, financial position, results of operations, and cash flows.

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Use of proceeds

We intend to use the net proceeds from the sale of the notes, together with cash on hand, to (i) pay the consideration required in connection with our tender offer and consent solicitation for any and all of our outstanding 2014 Notes, including the payment of any applicable accrued and unpaid interest on such notes, and (ii) redeem any 2014 Notes that may remain outstanding following completion of the tender offer, including the payment of any applicable accrued and unpaid interest on such notes. As of September 30, 2009, $329.6 million aggregate principal amount of the 2014 Notes was outstanding, bearing interest at a rate of 7.2175% per annum. While the 2014 Notes mature on June 15, 2014, we have the option to prepay the aggregate principal amount of such notes, together with any accrued and unpaid interest on such notes, at any time, in whole or in part, at a redemption price that is currently 103.00% of their principal amount.

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Capitalization

The table below sets forth the following information:

- our actual cash and cash equivalents and capitalization as of September 30, 2009; and

- our cash and cash equivalents and capitalization, as adjusted to reflect the offering of the notes and the use of proceeds therefrom.

You should read the information in this table together with our consolidated financial statements and the related notes in our Quarterly Report on Form 10-Q for the period ended September 30, 2009, which is incorporated herein by reference.

	As of September 30, 2009	
(In millions, except share data)	**Actual**	**As adjusted**
Cash and cash equivalents	$ 117.3	$ 60.5
Senior secured debt		
Revolving Credit Facility	$	$
Term Loan Facility (1)	753.2	753.2
Capital Lease Obligations	104.9	104.9
	858.1	858.1
Senior debt		
Notes offered hereby		290.0
Existing Senior Notes	826.1	496.5
Other notes payable	12.5	12.5
	$ 838.6	$ 799.0
Total debt	$ 1,696.7	$ 1,657.1
Preferred Stock, $0.10 par value: 1,500,000 shares authorized: 400,000 issued and outstanding; liquidation preference of $1,000 per share	$ 387.4	$ 387.4
Shareholders deficit		
Common stock, $0.01 par value; 200,000,000 shares authorized; 97,238,725 issued in 2009	1.0	1.0
Capital in excess of par value	2,888.4	2,888.4
Accumulated deficit	(3,756.0)	(3,756.0)
Accumulated other comprehensive income	0.9	0.9
Treasury stock, at cost (3,926,639 shares in 2009)	(137.0)	(137.0)
Noncontrolling interests	80.8	80.8
Total shareholders deficit	(921.9)	(921.9)
Total capitalization	$ 1,162.2	$ 1,122.6

(1) As of October 23, 2009, we reached agreement with the lenders in our Credit Agreement to extend the maturity of a portion of our term loan facility. The extension provides for a $300.0 million tranche of the term loan facility to have its maturity extended from March 2013 to September 2015 in exchange for a higher interest rate spread on that portion of the loan. In the event we have not fully redeemed or refinanced the 2014 Notes by March 15, 2014, the extended portion of the term loan facility will mature on that date.

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Description of notes

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

HealthSouth Corporation will issue the % Senior Notes due (the *Notes*) under a supplemental indenture (the *Supplemental Indenture*) to be dated , 2009, to the senior indenture (together with the Supplemental Indenture, the *Indenture*) dated , 2009, among itself, the Subsidiary Guarantors and The Bank of Nova Scotia Trust Company of New York, as Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act. References to the Indenture in this Description of Notes include the Supplemental Indenture.

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

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

Brief description of the notes

These Notes:

- are unsecured senior obligations of the Company;
- are senior in right of payment to any existing and future Subordinated Obligations of the Company; and
- are guaranteed by each Subsidiary Guarantor.

Principal, maturity and interest

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

Interest on the Notes will accrue at the rate of % per annum.

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Interest on the Notes will be payable semiannually in arrears on February and August of each year, commencing February , 2010. We will make each interest payment to the holders of record of the Notes on the immediately preceding and . We will pay interest on overdue principal at 1% per annum in excess of the rate set forth above and will pay interest on overdue installments of interest at such higher rate to the extent lawful. Interest on the Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

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

Optional redemption

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

Period	Redemption price
2015	%
2016	%
2017	%
2018 and thereafter	%

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

(1) at least 65% of such aggregate principal amount of the Notes (which includes Additional Notes, if any) remains outstanding immediately after the occurrence of each such redemption (other than the Notes held, directly or indirectly, by the Company or its Affiliates); and

(2) each such redemption occurs within 90 days after the date of the related Equity Offering.

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

Applicable Premium means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (i) the redemption price of such Note on , 2015 (such redemption prices being described in the tables above in this Optional Redemption section, and exclusive

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of any accrued interest), plus (ii) all required remaining scheduled interest payments due on such Note through , 2015 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such Note on such redemption date.

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

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

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

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

Reference Treasury Dealer means each of J.P. Morgan Securities Inc., Barclays Capital Inc. and Goldman, Sachs & Co. and their respective successors and assigns.

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

Selection and notice of redemption

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

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

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

Mandatory redemption; offers to purchase; open market purchases

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

Guarantees

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

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

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

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

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

(1) upon the designation of such Subsidiary Guarantor as an Unrestricted Subsidiary under the Indenture;

(2) at such time as (A) any Guarantee by such Subsidiary Guarantor of the obligations under the Credit Agreement and any other Guarantee that resulted in (or would by itself require) the creation of such Subsidiary Guarantee under the Indenture has been released and discharged,

except a discharge or release by or as a result of payment under such Guarantee, and (B) such Subsidiary Guarantor does not have any Indebtedness outstanding that resulted in (or would by itself require) the creation of such Subsidiary Guarantee under the Indenture; or

(3) if we exercise our legal defeasance option or our covenant defeasance option as described under Defeasance or if our obligations under the Indenture are discharged in accordance with the terms of Indenture.

Ranking

Senior indebtedness versus notes

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

As of September 30, 2009, after giving *pro forma* effect to this Offering (and assuming that all of the outstanding Floating Rate Notes due 2014 are tendered and accepted for purchase by the Company in the tender offer substantially concurrently with this Offering), the Senior Indebtedness of the Company and the Subsidiary Guarantors would have been approximately $1.7 billion, including approximately $858.1 million of secured indebtedness. Other than capital leases, substantially all of the Senior Indebtedness of the Subsidiary Guarantors consists of their respective guarantees of Senior Indebtedness of the Company under the Credit Agreement and with respect to our outstanding 10.75% Senior Notes due 2016 and the Notes.

The Notes are unsecured obligations of the Company. Secured debt and other secured obligations of the Company and the Subsidiary Guarantors (including obligations with respect to the Credit Agreement) will be effectively senior to the Notes and the Subsidiary Guaranties to the extent of the value of the assets securing such debt or other obligations.

Liabilities of subsidiaries versus notes

A substantial amount of our operations are conducted through our subsidiaries. Certain of our wholly-owned subsidiaries, and substantially all of our non-wholly-owned subsidiaries, are not guaranteeing the Notes. In addition, as described above under Guarantees , Subsidiary Guaranties may be released under certain circumstances. Also, our future subsidiaries may not be required to guarantee the Notes. Claims of creditors of such non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries, and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of our creditors, including holders of the Notes. Accordingly, the Notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of our non-guarantor subsidiaries.

At September 30, 2009, the total liabilities of our subsidiaries (other than the Subsidiary Guarantors) were approximately $190.2 million, including trade payables (excluding intercompany liabilities). Although the Indenture limits the incurrence of Indebtedness and preferred stock by certain of our subsidiaries, such limitation is subject to a number of significant qualifications. Moreover, the Indenture does not impose any limitation on the incurrence by such subsidiaries of liabilities that are not considered Indebtedness under the Indenture. See Certain Covenants Limitation on Indebtedness . The non-guarantor subsidiaries generated approximately 29.0% of our consolidated net operating revenues and approximately 24.2% of

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our Adjusted Consolidated EBITDA for the year ended December 31, 2008, and generated approximately 29.7% of our consolidated net operating revenues and approximately 23.8% of our Adjusted Consolidated EBITDA for the nine months ended September 30, 2009.

Transfer and exchange

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

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

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

Depository procedures

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

DTC has advised us that DTC is a limited-purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, the *participants*) and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book-entry changes in accounts of its participants. The participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly (collectively, the *indirect participants*). Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants.

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

(1) upon deposit of the Global Notes, DTC will credit the accounts of participants designated by the underwriters with portions of the principal amount of the Global Notes; and

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(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the participants) or by the participants and the indirect participants (with respect to other owners of beneficial interests in the Global Notes).

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

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

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

(1) any aspect of DTC s records or any participant s or indirect participant s records relating or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any of DTC s records or any participant s or indirect participant s records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

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

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

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

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

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Notes if:

(1) DTC (A) notifies the Company that it is unwilling or unable to continue as depositary for the Global Notes or (B) has ceased to be a clearing agency registered under the Exchange Act and, in each case, a successor depositary is not appointed;

(2) the Company, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes; or

(3) there has occurred and is continuing an Event of Default with respect to the Notes.

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

Same day settlement and payment

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

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Change of control

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

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

(2) at any time during any period of up to 24 consecutive months, commencing on the Issue Date, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office;

(3) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution; or

(4) the merger or consolidation of the Company with or into another Person or the merger of another Person with or into the Company, or the sale of all or substantially all the assets of the Company (determined on a consolidated basis) to another Person, other than a transaction following which (i) in the case of a merger or consolidation transaction, holders of securities that represented 100% of the Voting Stock of the Company immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction immediately after such transaction and (ii) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a Subsidiary of the transferor of such assets.

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

(1) that a Change of Control has occurred and that such Holder has the right to require us to purchase such Holder s Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts and financial information regarding such Change of Control;

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and

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(4) the instructions, as determined by us, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased.

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

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

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the Company and the underwriters. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional Indebtedness are contained in the covenants described under Certain Covenants Limitation on Indebtedness , Limitation on Liens and Limitation on Sale/Leaseback Transactions . Such restrictions can only be waived under the Indenture with the consent of the holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford holders of the Notes protection in the event of a highly leveraged transaction.

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

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

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

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

Certain covenants

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

Limitation on indebtedness

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

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

(1) Indebtedness Incurred pursuant to the Credit Agreement; *provided*, *however*, that, immediately after giving effect to any such Incurrence, the aggregate principal amount of all Indebtedness Incurred under this clause (1) and then outstanding does not exceed $1,551 million less the sum of all principal payments with respect to such Indebtedness made pursuant to paragraph (a)(3)(A) of, and in satisfaction of, the covenant described under Limitation on Sales of Assets and Subsidiary Stock ;

(2) Indebtedness owed to and held by the Company or a Restricted Subsidiary; *provided*, *however*, that (A) any subsequent issuance or transfer of any Capital Stock that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon, (B) if the Company is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes, and (C) if a Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness is expressly subordinated to the prior payment in full in cash of all obligations of such Subsidiary Guarantor with respect to its Subsidiary Guarantee;

(3) the Notes (excluding any Additional Notes);

(4) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2) or (3) of this covenant);

(5) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by the Company (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by the Company); *provided*, *however*, that on the date of such acquisition and after giving *pro forma* effect thereto, the Company would have been entitled to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant;

(6) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) or pursuant to clause (3), (4) or (5) or this clause (6);

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

(8) obligations in respect of performance, bid and surety bonds and completion guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of business;

(9) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within three Business Days of its Incurrence;

(10) Indebtedness consisting of the Subsidiary Guarantee of a Subsidiary Guarantor and any Guarantee by the Company or a Subsidiary Guarantor of Indebtedness or other obligations of the Company or any Restricted Subsidiary (other than Indebtedness Incurred pursuant to clause (5) above) so long as the Incurrence of such Indebtedness or other obligations by the Company or such Restricted Subsidiary is permitted under the terms of the Indenture;

(11) (A) Purchase Money Indebtedness, (B) Capital Lease Obligations and (C) Attributable Debt, and Refinancing Indebtedness in respect thereof, in an aggregate principal amount on the date of Incurrence that, when added to all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, does not exceed 10% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto;

(12) [Intentionally omitted];

(13) Indebtedness Incurred by a Receivables Entity in a Qualified Receivables Transaction;

(14) Preferred Stock issued by any Restricted Subsidiary formed to operate a single health care facility; *provided* that the amount of such Preferred Stock, when added to the aggregate amount of all other such Preferred Stock of Restricted Subsidiaries then outstanding, does not exceed 1% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto; and

(15) Indebtedness of the Company or of any of its Restricted Subsidiaries in an aggregate principal amount that, when taken together with all other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the date of such Incurrence (other than Indebtedness permitted by clauses (1) through (14) above or paragraph (a)) does not exceed $125 million.

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(c) Notwithstanding the foregoing, neither the Company nor any Subsidiary Guarantor will incur any Indebtedness pursuant to the foregoing paragraph (b) if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Company or any Subsidiary Guarantor unless such Indebtedness shall be subordinated to the Notes or the applicable Subsidiary Guarantee to at least the same extent as such Subordinated Obligations.

(d) For purposes of determining compliance with this covenant:

(1) all Indebtedness outstanding under the Credit Agreement on the Issue Date will be treated as Incurred under clause (1) of paragraph (b) above;

(2) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, the Company, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses (*provided* that any Indebtedness originally classified as Incurred pursuant to any of clauses (b)(2) through (b)(15) above may later be reclassified as having been Incurred pursuant to paragraph (a) or any other of clauses (b)(2) through (b)(15) above to the extent that such reclassified Indebtedness could be Incurred pursuant to paragraph (a) or one of clauses (b)(2) through (b)(15) above, as the case may be, if it were Incurred at the time of such reclassification); and

(3) the Company will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above.

Limitation on restricted payments

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

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

(2) the Company is not entitled to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under Limitation on Indebtedness ; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (without duplication):

(A) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from (and including) July 1, 2006 (being the beginning of the fiscal quarter immediately following the fiscal quarter during which the Company s 10.75% Senior Notes due 2016 were issued), to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); *plus*

(B) 100% of the aggregate Net Cash Proceeds received by the Company from the issuance or sale of its Capital Stock (other than Disqualified Stock) subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Company and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) and 100% of any cash capital contribution received by the Company from its shareholders subsequent to the Issue Date; *plus*

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(C) the amount by which Indebtedness of the Company is reduced on the Company s balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Company convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); *provided*, *however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Company or to an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); *plus*

(D) an amount equal to the net reduction in the Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Company or any Restricted Subsidiary; *provided*, *however*, that the foregoing sum shall not exceed, in the case of any such Person, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Person; plus

(E) in the case of the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the portion (proportionate to the Company s equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is redesignated as a Restricted Subsidiary, except to the extent that the Investment in such Unrestricted Subsidiary was made by the Company or a Restricted Subsidiary pursuant to clause (10) of the next succeeding paragraph or to the extent that such Investment constituted a Permitted Investment; *plus*

(F) $50 million.

As of September 30, 2009, the amount available for Restricted Payments pursuant to clause (a)(3) would have been approximately $393 million.

(b) The preceding provisions will not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Company from its shareholders; *provided*, *however*, that (A) such Restricted Payment shall be excluded in the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded in the calculation of amounts under clause (3)(B) of paragraph (a) above;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Company or a Subsidiary Guarantor made by exchange for, or out of the proceeds of the substantially concurrent incurrence of, Indebtedness of such Person that is permitted to be Incurred pursuant to the covenant

described under Limitation on Indebtedness ; *provided*, *however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant; *provided*, *however* that such dividend shall be included in the calculation of the amount of Restricted Payments;

(4) so long as no Default has occurred and is continuing, the purchase, redemption or other acquisition of shares of Capital Stock of the Company or any of its Subsidiaries from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved or ratified by the Board of Directors under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such Capital Stock; *provided*, *however*, that the aggregate amount of such Restricted Payments (excluding amounts representing cancelation of Indebtedness) shall not exceed $5,000,000 in any calendar year (*provided* that (A) if the Company and its Restricted Subsidiaries make less than $5,000,000 in the aggregate of such Restricted Payments in any calendar year, the unused amount for such calendar year may be carried over to the next succeeding calendar year (but not any other calendar year thereafter) and (B) the amount payable in any calendar year may be increased by an amount up to the sum of (i) the amount of cash proceeds from the sale of Capital Stock (other than Disqualified Stock) of the Company to employees, former employees, directors or former directors of the Company or any of its Subsidiaries, to the extent that the cash proceeds from the sale of such Capital Stock have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3)(B) of paragraph (a) of this covenant, plus (ii) the cash proceeds of key man life insurance policies received by the Company or its Restricted Subsidiaries after the Issue Date, less (iii) the amount of repurchases and other acquisitions previously made with the cash proceeds described in clauses (i) and (ii) above); *provided*, *further*, *however*, that (x) such repurchases and other acquisitions shall be excluded in the calculation of the amount of Restricted Payments and (y) cash proceeds referred to in clause (B)(i) above used to make Restricted Payments under this clause (4) shall be excluded in the calculation of amounts under clause (3)(B) of paragraph (a) above;

(5) (A) the declaration and payment of dividends on the Convertible Preferred Stock, and other cash payments at any time to reduce any accretion in the liquidation preference resulting from previously unpaid dividends on the Convertible Preferred Stock, in each case in accordance with the terms thereof in effect on the Issue Date and (B) the declaration and payments of dividends on Disqualified Stock issued pursuant to the covenant described under Limitation on Indebtedness ; *provided*, *however*, in each case, that at the time of payment of such dividend or other cash payment, no Default shall have occurred and be continuing (or result therefrom); *provided*, *further*, *however*, that dividends and cash payments referred to in this clause (5) shall be excluded in the calculation of the amount of Restricted Payments;

(6) repurchases of Capital Stock deemed to occur upon exercise of stock options if such Capital Stock represents a portion of the exercise price of such options; *provided*, *however*, that such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments;

(7) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided*, *however*, that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading; *provided*, *further*, *however*, that such payments shall be excluded in the calculation of the amount of Restricted Payments;

(8) in the event of a Change of Control, and if no Default shall have occurred and be continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of the Company or any Subsidiary Guarantor, in each case, at a purchase price not greater than 101% of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; *provided*, *however*, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Company (or a third party to the extent permitted by the Indenture) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased all Notes validly tendered and not withdrawn in connection with such Change of Control Offer; *provided*, *further*, *however*, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be excluded in the calculation of the amount of Restricted Payments;

(9) payments of intercompany subordinated Indebtedness, the Incurrence of which was permitted under clause (2) of paragraph (b) of the covenant described under Limitation on Indebtedness ; *provided*, *however*, that no Default has occurred and is continuing or would otherwise result therefrom; *provided*, *further*, *however*, that such payments shall be excluded in the calculation of the amount of Restricted Payments; or

(10) Restricted Payments in an amount that, when taken together with all Restricted Payments made pursuant to this clause (10), does not exceed $50 million; *provided*, *however*, that (A) at the time of each such Restricted Payment, no Default shall have occurred and be continuing (or result therefrom) and (B) such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments.

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

Limitation on restrictions on distributions from restricted subsidiaries

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

(1) with respect to clauses (a), (b) and (c),

(A) any encumbrance or restriction pursuant to applicable law, rule, regulation or order or an agreement in effect at or entered into on the Issue Date;

(B) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Indebtedness Incurred by such Restricted Subsidiary on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company) and outstanding on such date;

(C) any encumbrance or restriction pursuant to any amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing of an agreement referred to in clause (A) or (B) above; *provided*, *however*, that such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing is no more restrictive, as reasonably determined by the Company, with respect to such encumbrances and other restrictions taken as a whole than those prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing;

(D) any encumbrance or restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(E) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(F) any limitation or prohibition on the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, stock sale agreements and other similar agreements, which limitation or prohibition is applicable only to the assets that are the subject of such agreements;

(G) any encumbrance or restriction existing under or by reason of contractual requirements of a Receivables Entity in connection with a Qualified Receivables Transaction, *provided* that such restrictions apply only to such Receivables Entity; and

(2) with respect to clause (c) only,

(A) any encumbrance or restriction consisting of customary nonassignment provisions in leases governing leasehold interests to the extent such provisions restrict the transfer of the lease or the property leased thereunder; and

(B) any encumbrance or restriction contained in Capital Lease Obligations, any agreement governing Purchase Money Indebtedness, security agreements or mortgages securing Indebtedness of a Restricted Subsidiary to the extent such encumbrance or restriction restricts the transfer of the property subject to such Capital Lease Obligations, Purchase Money Indebtedness, security agreements or mortgages.

Limitation on sales of assets and subsidiary stock

(a) The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Disposition unless:

(1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the shares and assets subject to such Asset Disposition;

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(2) at least 75% of the consideration thereof received by the Company or such Restricted Subsidiary is in the form of cash or cash equivalents; and

(3) an amount equal to l00% of the Net Available Cash from such Asset Disposition, other than any Asset Disposition that constitutes a Syndication or a resyndication transaction in the ordinary course of business,

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

(B) to the extent the Company elects (including with respect to the balance of such Net Available Cash after application (if any) in accordance with clause (A)), to acquire Additional Assets within one year from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and

(C) to the extent of the balance of such Net Available Cash after application (if any) in accordance with clauses (A) and (B), to make an offer to the holders of the Notes (and to holders of other Senior Indebtedness of the Company designated by the Company) to purchase Notes (and such other Senior Indebtedness of the Company) pursuant to and subject to the conditions contained in the Indenture;

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

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

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

(1) the assumption or discharge of any liabilities (as shown on the Company s or such Restricted Subsidiary s most recent balance sheet or in the footnotes thereto) of the Company or such Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes) that are assumed by the transferee of such assets and for which the Company and all of the Restricted Subsidiaries have been released by all creditors in writing;

(2) securities received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary within 180 days into cash, to the extent of cash received in that conversion;

(3) all Temporary Cash Investments; and

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(4) any Designated Noncash Consideration having an aggregate Fair Market Value that, when taken together with all other Designated Noncash Consideration previously received and then outstanding, does not exceed at the time of the receipt of such Designated Noncash Consideration (with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value) $30 million.

(b) In the event of an Asset Disposition that requires the purchase of Notes (and other Senior Indebtedness of the Company) pursuant to clause (a)(3)(C) above, the Company will purchase Notes tendered pursuant to an offer by the Company for the Notes (and such other Senior Indebtedness) at a purchase price of 100% of their principal amount (or, in the event such other Senior Indebtedness of the Company was issued with a significant original issue discount, 100% of the accreted value thereof) without premium, plus accrued but unpaid interest (or, in respect of such other Senior Indebtedness of the Company, such lesser price, if any, as may be provided for by the terms of such Senior Indebtedness) in accordance with the procedures (including prorating in the event of oversubscription) set forth in the Indenture. If the aggregate purchase price of the securities tendered exceeds the Net Available Cash allotted to their purchase, the Company will select the securities to be purchased on a *pro rata* basis but in round denominations, which in the case of the Notes will be denominations of $2,000 principal amount or any greater integral multiple of $1,000. The Company shall not be required to make such an offer to purchase Notes (and other Senior Indebtedness of the Company) pursuant to this covenant if the Net Available Cash available therefor is less than $20 million (which lesser amount shall be carried forward for purposes of determining whether such an offer is required with respect to the Net Available Cash from any subsequent Asset Disposition). Upon completion of such an offer to purchase, Net Available Cash will be deemed to be reduced by the aggregate amount of such offer.

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

Limitation on affiliate transactions

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

(1) the terms of the Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm s-length dealings with a Person who is not an Affiliate;

(2) if such Affiliate Transaction involves an amount in excess of $10 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of the Company disinterested with respect to such Affiliate Transaction have determined in good

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faith that the criteria set forth in clause (1) are satisfied and have approved the relevant Affiliate transaction as evidenced by a resolution of the Board of Directors; and

(3) if such Affiliate Transaction involves an amount in excess of $50 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Company and its Restricted Subsidiaries or is not less favorable to the Company and its Restricted Subsidiaries than could reasonably be expected to be obtained at the time in an arm s-length transaction with a Person who was not an Affiliate.

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

(1) any Investment (other than a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to the covenant described under Limitation on Restricted Payments ;

(2) any employment or consulting agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or approved by the Board of Directors, and payments pursuant thereto;

(3) loans or advances to employees in the ordinary course of business of the Company or its Restricted Subsidiaries, but in any event not to exceed $10 million in the aggregate outstanding at any one time;

(4) the payment of reasonable fees or other reasonable compensation to, or the provision of customary benefits or indemnification arrangements to, directors of the Company and its Restricted Subsidiaries;

(5) any transaction with the Company, a Restricted Subsidiary or any Person that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Restricted Subsidiary or Person;

(6) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Company;

(7) any agreement as in effect on the Issue Date and described in this Prospectus Supplement (or described in a document incorporated by reference in this Prospectus Supplement) or any renewals or extensions of any such agreement (so long as such renewals or extensions are not less favorable in any material respect to the Company or the Restricted Subsidiaries) and the transactions evidenced thereby;

(8) the provision of services to directors or officers of the Company or any of its Restricted Subsidiaries of the nature provided by the Company or any of its Restricted Subsidiaries to customers in the ordinary course of business; and

(9) transactions effected as a part of a Qualified Receivables Transaction.

Limitation on liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien (the *Initial Lien*) of any nature whatsoever on any of its properties (including Capital Stock of a Restricted Subsidiary), whether owned at the Issue Date

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or thereafter acquired, securing any Indebtedness, other than Permitted Liens, without effectively providing that the Notes shall be secured equally and ratably with (or prior to) the obligations so secured for so long as such obligations are so secured.

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

Limitation on sale/leaseback transactions

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

(1) the Company or such Restricted Subsidiary would be entitled to (A) Incur Indebtedness in an amount equal to the Attributable Debt with respect to such Sale/Leaseback Transaction pursuant to the covenant described under Limitation on Indebtedness and (B) create a Lien on such property securing such Attributable Debt without equally and ratably securing the Notes pursuant to the covenant described under Limitation on Liens ;

(2) the gross proceeds received by the Company or any Restricted Subsidiary in connection with such Sale/Leaseback Transaction are at least equal to the Fair Market Value of such property; and

(3) the Company applies the proceeds of such transaction in compliance with the covenant described under Limitation on Sale of Assets and Subsidiary Stock .

Merger and consolidation

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

(1) the resulting, surviving or transferee Person (the *Successor Company*) shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Company (if not the Company) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Notes and the Indenture;

(2) immediately after giving *pro forma* effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction, (A) the Successor Company would be able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under Limitation on Indebtedness or (B) the Consolidated Coverage Ratio for the Successor Company would be greater than such ratio for the Company and its Restricted Subsidiaries immediately prior to such transaction; and

(4) the Company shall have delivered to the Trustee an Officers Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture,

provided, *however*, that clause (3) will not be applicable to (A) a Restricted Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company (so long as no Capital Stock of the Company is distributed to any Person) or (B) the Company merging with an Affiliate of the Company solely for the purpose and with the sole effect of reincorporating the Company in another jurisdiction.

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

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

Future guarantors

The Company will cause each Restricted Subsidiary that (a) Guarantees any Indebtedness of the Company or any Subsidiary Guarantor (other than Indebtedness permitted to be Incurred pursuant to clause (2), (8) or (9) of paragraph (b) of the covenant described under Limitation on Indebtedness) or (b) Incurs any Indebtedness other than Eligible Indebtedness, to, at the same time, execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture.

SEC reports

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

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Defaults

Each of the following is an Event of Default under the Indenture governing the Notes:

(1) a default in the payment of interest on the Notes when due, continued for 30 days;

(2) a default in the payment of principal of any Note when due at its Stated Maturity, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise;

(3) the failure by the Company to comply with its obligations under Certain Covenants Merger and Consolidation above;

(4) the failure by the Company or any Subsidiary Guarantor to comply for 60 days after notice with its agreements contained in the Indenture;

(5) Indebtedness of the Company, any Subsidiary Guarantor or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $50 million (the *cross acceleration provision*);

(6) certain events of bankruptcy, insolvency or reorganization of the Company, a Subsidiary Guarantor or any Significant Subsidiary (the *bankruptcy provisions*);

(7) any judgment or decree for the payment of money in excess of $50 million is entered against the Company, a Subsidiary Guarantor or any Significant Subsidiary, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or effectively stayed (the *judgment default provision*); or

(8) a Subsidiary Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Subsidiary Guarantee) or a Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee.

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

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

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

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

(1) such holder has previously given the Trustee notice that an Event of Default is continuing;

(2) holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity; and

(5) holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

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

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

Amendments and waivers

Subject to certain exceptions, the Indenture may be amended with the consent of the holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange for, the Notes) and any past default or compliance with any provisions may also be waived with the consent of the holders of a majority in principal amount of the Notes then outstanding. However, without the consent of each holder of an outstanding Note affected thereby, an amendment or waiver may not, among other things:

(1) reduce the amount of Notes whose holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Note;

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(3) reduce the principal of or change the Stated Maturity of any Note;

(4) (i) reduce the amount payable upon the redemption of any Note or (ii) change the time at which any Note may be redeemed, in each case as described under Optional Redemption above;

(5) make any Note payable in money other than that stated in the Note;

(6) impair the right of any holder of the Notes to receive payment of principal of and interest on such holder s Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder s Notes;

(7) make any change in the amendment provisions that require each holder s consent or in the waiver provisions;

(8) make any change in the ranking or priority of any Note that would adversely affect the Noteholders; or

(9) make any change in, or release other than in accordance with the Indenture, any Subsidiary Guarantee that would adversely affect the Noteholders.

Notwithstanding the preceding, without the consent of any holder of the Notes, the Company, the Subsidiary Guarantors and Trustee may amend the Indenture:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to provide for the assumption by a successor corporation of the obligations of the Company or any Subsidiary Guarantor under the Indenture;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(4) to add Guarantees with respect to the Notes, including any Subsidiary Guaranties, or to secure the Notes;

(5) to add to the covenants of the Company or a Subsidiary Guarantor for the benefit of the holders of the Notes or to surrender any right or power conferred upon the Company or a Subsidiary Guarantor;

(6) to make any change that does not adversely affect the rights of any holder of the Notes;

(7) to conform the text of the Indenture or the Notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Indenture or the Notes;

(8) to comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act; or

(9) to make any amendment to the provisions of the Indenture relating to the transfer and legending of Notes; *provided*, *however*, that (a) compliance with the Indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any other

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applicable securities law and (b) such amendment does not materially and adversely affect the rights of Holders to transfer Notes.

The consent of the holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment under the Indenture becomes effective, the Company shall be required to mail to holders of the Notes a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Notes, or any defect therein, will not impair or affect the validity of the amendment.

Neither the Company nor any Affiliate of the Company may, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to all Holders of such Notes and is paid to all Holders of such Notes that so consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Transfer

The Notes will be issued in registered form and will be transferable only upon the surrender of the Notes being transferred for registration of transfer. We may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges.

Satisfaction and discharge

When we (1) deliver to the Trustee all outstanding Notes for cancellation or (2) all outstanding Notes have become due and payable, whether at maturity or on a redemption date as a result of the mailing of notice of redemption, and, in the case of clause (2), we irrevocably deposit with the Trustee funds sufficient to pay at maturity or upon redemption all outstanding Notes, including interest thereon to maturity or such redemption date, and if in either case we pay all other sums payable under the Indenture by us, then the Indenture shall, subject to certain exceptions, cease to be of further effect.

Defeasance

At any time, we may terminate all our obligations under the Notes and the Indenture (*legal defeasance*), except for certain obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes.

In addition, at any time we may terminate our obligations under Change of Control and under the covenants described under Certain Covenants (other than the covenant described under Merger and Consolidation), the operation of the cross acceleration provision, the bankruptcy provisions with respect to Subsidiary Guarantors and Significant Subsidiaries and the judgment default provision described under Defaults above and the limitations contained in clause (3) of the first paragraph under Certain Covenants Merger and Consolidation above (*covenant defeasance*).

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We may exercise our legal defeasance option notwithstanding our prior exercise of our covenant defeasance option. If we exercise our legal defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default with respect thereto. If we exercise our covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (1), (5), (6) (with respect only to Significant Subsidiaries and Subsidiary Guarantors) or (7) under Defaults above or because of the failure of the Company to comply with clause (3) of the first paragraph under Certain Covenants Merger and Consolidation above. If we exercise our legal defeasance option or our covenant defeasance option with respect to the Notes, each Subsidiary Guarantor under the Indenture will be released from all of its obligations with respect to its Subsidiary Guarantee in respect of the Notes.

In order to exercise either of our defeasance options with respect to the Notes, we must irrevocably deposit in trust (the *defeasance trust*) with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of an Opinion of Counsel to the effect that holders of the Notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or other change in applicable Federal income tax law).

Concerning the Trustee

The Bank of Nova Scotia Trust Company of New York is to be the Trustee under the Indenture and has been appointed by the Company as Registrar and Paying Agent with regard to the Notes.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided*, *however*, if it acquires any conflicting interest it must either eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. If an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

No personal liability of directors, officers, employees and stockholders

No director, officer, employee, incorporator or stockholder of the Company or any Subsidiary Guarantor will have any liability for any obligations of the Company or any Subsidiary Guarantor

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under the Notes, any Subsidiary Guarantee or the Indenture or for any claim based on, in respect of, by reason of such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the U.S. Federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Governing law

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Certain definitions

Additional Assets means:

(1) any property or assets used in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, *however*, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

Affiliate of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, control when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms controlling and controlled have meanings correlative to the foregoing. No Person (other than the Company or any Subsidiary of the Company) in whom a Receivables Entity makes an Investment in connection with a Qualified Receivables Transaction will be deemed to be an Affiliate of the Company or any of its Subsidiaries solely by reason of such Investment.

Asset Disposition means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a *disposition*), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary

(other than, in the case of clauses (1), (2) and (3) above,

(A) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Restricted Subsidiary;

(B) for purposes of the covenant described under Certain Covenants Limitation on Sales of Assets and Subsidiary Stock only, a disposition that constitutes a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) that is not prohibited by the covenant described under Certain Covenants Limitation on Restricted Payments or that constitutes a Permitted Investment;

(C) a disposition of all or substantially all the assets of the Company in accordance with the covenant described under Certain Covenants Merger and Consolidation ;

(D) a disposition of assets with a Fair Market Value of less than or equal to $7.5 million;

(E) sales of damaged, worn-out or obsolete equipment or assets in the ordinary course of business that, in the Company s reasonable judgment, are no longer either used or useful in the business of the Company or its Subsidiaries;

(F) the sale or discount, in each case without recourse, of accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof;

(G) sales of accounts receivable and related assets of the type specified in the definition of Qualified Receivables Transaction to a Receivables Entity;

(H) transfers of accounts receivable and related assets of the type specified in the definition of Qualified Receivables Transaction (or a fractional undivided interest therein) by a Receivables Entity in a Qualified Receivables Transaction;

(I) leases or subleases to third Persons in the ordinary course of business that do not interfere in any material respect with the business of the Company or any of its Restricted Subsidiaries;

(J) a disposition of cash or Temporary Cash Investments; and

(K) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien).

Attributable Debt in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate implicit in the lease, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended); *provided*, *however*, that if such Sale/Leaseback Transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capital Lease Obligation .

Average Life means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by

(2) the sum of all such payments.

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Board of Directors means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

Business Day means each day which is not a Legal Holiday.

Capital Lease Obligation means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of the covenant described under Certain Covenants Limitation on Liens , a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

Capital Stock of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

Captive Insurance Subsidiary means HCS, Ltd., a Cayman Islands entity, and any successor to it, and any other Subsidiary formed for the purpose of facilitating self-insurance programs of the Company and its Subsidiaries.

Code means the Internal Revenue Code of 1986, as amended.

Consolidated Amortization Expense means, for any Person for any period, the amortization expense of such Person and its Restricted Subsidiaries for such period (to the extent included in the computation of Consolidated Net Income of such Person), determined on a consolidated basis in accordance with GAAP, excluding amortization expense attributable to a prepaid item that was paid in cash in a prior period.

Consolidated Coverage Ratio as of any date of determination means the ratio of (a) the aggregate amount of EBITDA for the period of the most recent four consecutive fiscal quarters ending at least 45 days prior to the date of such determination to (b) Consolidated Interest Expense for such four fiscal quarters; *provided*, *however*, that:

(1) if the Company or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a *pro forma* basis to such Indebtedness (and the application of the proceeds thereof) as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a *pro forma* basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted

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Subsidiary had not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Company and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, that constitutes a hospital or other health care-related business or all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such period; and

(5) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Company or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting Officer of the Company (and shall include any applicable Pro Forma Cost Savings). If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness).

If any Indebtedness is incurred under a revolving credit facility and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated based on the average daily balance of such Indebtedness for the four fiscal quarters subject to the *pro forma* calculation to the extent that such Indebtedness was incurred solely for working capital purposes.

Consolidated Depreciation Expense means, for any Person for any period, the depreciation expense of such Person and its Restricted Subsidiaries for such period (to the extent included in

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the computation of Consolidated Net Income of such Person), determined on a consolidated basis in accordance with GAAP.

Consolidated Income Tax Expense means, for any Person for any period, the provision for taxes based on income and profits of such Person and its Restricted Subsidiaries to the extent such provision for income taxes was deducted in computing Consolidated Net Income of such Person for such period, determined on a consolidated basis in accordance with GAAP.

Consolidated Interest Expense means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries, net of interest income of the Company and its consolidated Restricted Subsidiaries (other than interest income of any Captive Insurance Subsidiary that is a Restricted Subsidiary), *plus*, to the extent not included in the calculation of total interest expense, and to the extent incurred by the Company or its Restricted Subsidiaries, without duplication:

(1) interest expense attributable to Capital Lease Obligations;

(2) amortization of debt discount;

(3) capitalized interest;

(4) non-cash interest expense;

(5) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers acceptance financing;

(6) net payments made or received pursuant to Hedging Obligations;

(7) dividends accrued in respect of all Disqualified Stock of the Company and all Preferred Stock of any Restricted Subsidiary, in each case held by Persons other than the Company or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the Company); *provided*, *however*, that such dividends will be multiplied by a fraction the numerator of which is one and the denominator of which is one minus the effective combined tax rate of the issuer of such Preferred Stock (expressed as a decimal) for such period (as estimated by the chief financial officer of the Company in good faith);

(8) interest accruing on any Indebtedness of any other Person to the extent such Indebtedness is Guaranteed by (or secured by the assets of) the Company or any Restricted Subsidiary; and

(9) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Indebtedness Incurred by such plan or trust.

Consolidated Net Income means, for any period, the net income of the Company and its consolidated Subsidiaries; *provided*, *however*, that there shall not be included in such Consolidated Net Income:

(1) any net income if any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:

(A) subject to the exclusion contained in clause (4) below, the Company s equity in the net income of any such Person for such period shall be included in such Consolidated Net

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Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) the Company s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Company or a Restricted Subsidiary;

(2) any net income (or loss) of any Person acquired by the Company or a Subsidiary in a pooling of interests transaction (or any transaction accounted for in a manner similar to a pooling of interests) for any period prior to the date of such acquisition;

(3) any net income of any Restricted Subsidiary if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(A) subject to the exclusion contained in clause (4) below, the Company s equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Company s equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain (or loss) realized upon the sale or other disposition of any assets of the Company, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(5) any net income or net losses from discontinued operations;

(6) extraordinary gains or losses; and

(7) the cumulative effect of a change in accounting principles,

in each case, for such period. Notwithstanding the foregoing, for the purposes of the covenant described under Certain Covenants Limitation on Restricted Payments only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of Investments or return of capital to the Company or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under such covenant pursuant to clause (a)(3)(D) or (a)(3)(E) thereof.

Consolidated Tangible Assets as of any date means the total assets of the Company and its Restricted Subsidiaries (excluding any assets that would be classified as intangible assets under GAAP) on a consolidated basis at such date, as determined in accordance with GAAP, less (i) all write-ups subsequent to the Issue Date in the book value of any asset owned by the Company or any of its Restricted Subsidiaries and (ii) Investments in and assets of Unrestricted Subsidiaries.

Convertible Preferred Stock means the Company s Series A Convertible Perpetual Preferred Stock issued and outstanding on the Issue Date.

Credit Agreement means the Credit Agreement dated as of March 10, 2006, as amended as of the date of the Indenture, by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent and the other lenders and agents party thereto from time to time, together with the related documents thereto (including the term loans and revolving loans thereunder, any guarantees and security documents), as amended, extended, renewed, restated, supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to Refinance, in whole or in part, the borrowings and commitments then outstanding or permitted to be outstanding under such Credit Agreement or a successor Credit Agreement, whether by the same or any other lender or group of lenders (including by means of sales of debt securities to institutional investors).

Currency Agreement means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

Default means any event which is, or after notice or passage of time or both would be, an Event of Default.

Designated Noncash Consideration means noncash consideration received by the Company or one of its Restricted Subsidiaries in connection with an Asset Disposition that is designated by the Company as Designated Noncash Consideration, less the amount of cash or cash equivalents received in connection with a subsequent sale of such Designated Noncash Consideration, which cash and cash equivalents shall be considered Net Available Cash received as of such date and shall be applied pursuant to the covenant described under Certain Covenants Limitation on Sales of Assets and Subsidiary Stock .

Disqualified Stock means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the date that is 91 days after the Stated Maturity of the Notes; *provided*, *however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an asset sale or change of control occurring prior to the date that is 91 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the asset sale or change of control provisions applicable to such Capital Stock are not

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more favorable to the holders of such Capital Stock than the terms applicable to the Notes and described under Certain Covenants Limitation on Sales of Assets and Subsidiary Stock and Certain Covenants Change of Control .

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided*, *however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person. The Convertible Preferred Stock, based on the terms thereof in effect on the Issue Date, is not Disqualified Stock.

EBITDA of any Person for any period means Consolidated Net Income of such Person for such period plus, without duplication, the sum for such Person of the following to the extent deducted in calculating Consolidated Net Income for such period:

(1) Consolidated Income Tax Expense,

(2) Consolidated Depreciation Expense,

(3) Consolidated Amortization Expense,

(4) Consolidated Interest Expense,

(5) all other non-cash items or non-recurring non-cash items reducing Consolidated Net Income of such Person and its Subsidiaries, determined on a consolidated basis in accordance with GAAP (including non-cash charges incurred as a result of the application of FASB Accounting Standard Codification 718, Compensation Stock Compensation); *provided* that cash expenditures made in respect of items to which the charges referred to in this clause (5) relate in an aggregate amount in excess of $10,000,000 for any period of four consecutive fiscal quarters shall be deducted in determining EBITDA for the period during which such expenditures are made,

(6) any restructuring charges in respect of legal fees associated with the government, class action and shareholder derivative litigation described in the Company s Report on Form 10-K for the fiscal year ended December 31, 2008,

(7) fees, costs and expenses related to this Offering,

(8) any losses from discontinued operations and closed locations,

(9) costs and expenses related to the settlement of the Shareholder Litigation, and

(10) charges in respect of professional fees for reconstruction of financial statements (including matters related to internal controls and documentation) that relate to the fiscal years ended December 31, 2000, 2001, 2002, 2003, 2004 and 2005 and the fiscal quarters occurring during such fiscal years,

in each case determined on a consolidated basis in accordance with GAAP, less all unusual non-cash items or non-recurring non-cash items to the extent increasing Consolidated Net Income of such Person and its Subsidiaries, determined on a consolidated basis in accordance with GAAP,

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in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income or loss of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its stockholders.

Eligible Indebtedness means any Indebtedness other than:

(1) Indebtedness in the form of, or represented by, bonds (other than surety bonds, indemnity bonds, performance bonds or bonds of a similar nature) or other securities or any Guarantee thereof; and

(2) Indebtedness that is, or may be, quoted, listed or purchased and sold on any stock exchange automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, the market for securities eligible for resale pursuant to Rule 144A under the Securities Act).

Equity Offering means any public or private sale of Capital Stock (other than Disqualified Stock) of the Company, other than public offerings with respect to the Company s common stock registered on Form S-8 under the Securities Act and other than issuances to any Subsidiary of the Company.

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended.

Fair Market Value means, with respect to any asset or property, the price that could be negotiated in an arm s-length, free market transaction, for cash, between a willing and able buyer and an unaffiliated willing seller, neither of whom is under undue pressure or compulsion to complete the transaction, as such price is determined in good faith by (1) the Chief Financial Officer, the Treasurer or the Chief Accounting Officer of the Company (unless otherwise provided in the Indenture) for transactions valued at, or below, $10 million, or (2) the Board of Directors of the Company (unless otherwise provided in the Indenture) for transactions valued in excess of $10 million.

GAAP means generally accepted accounting principles in the United States of America as in effect as the Issue Date, including those set forth in:

(1) the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants;

(2) statements and pronouncements of the Financial Accounting Standards Board;

(3) such other statements by such other entity as approved by a significant segment of the accounting profession; and

(4) the rules and regulations of the SEC governing the inclusion of financial statements (including *pro forma* financial statements) in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the SEC.

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Guarantee means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.

Guaranty Agreement means a supplemental indenture, in a form satisfactory to the Trustee, pursuant to which a Subsidiary Guarantor guarantees the Company s obligations with respect to the Notes on the terms provided for in the Indenture.

Hedging Obligations of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

Holder or *Noteholder* means the Person in whose name a Note is registered on the Registrar s books.

Incur means issue, assume, Guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term Incurrence when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Certain Covenants Limitation on Indebtedness :

(1) amortization of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(2) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(3) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or making of a mandatory offer to purchase such Indebtedness

will not be deemed to be the Incurrence of Indebtedness.

Indebtedness means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale/Leaseback Transactions entered into by such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following payment on the letter of credit);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with the Indenture (but excluding, in each case, any accrued dividends);

(6) all obligations of the type referred to in clauses (1) through (5) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;

(7) all obligations of the type referred to in clauses (1) through (6) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or assets and the amount of the obligation so secured; and

(8) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

Notwithstanding the foregoing, in connection with the purchase by the Company or any Restricted Subsidiary of any business, the term Indebtedness will exclude indemnification, purchase price adjustment, holdback and contingency payment obligations to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 60 days thereafter.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all obligations as described above; *provided*, *however*, that in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accreted value thereof at such time.

Independent Qualified Party means an investment banking firm, accounting firm or appraisal firm of national standing; *provided*, *however*, that such firm is not an Affiliate of the Company.

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Interest Rate Agreement means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

Investment in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. If the Company or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Company or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by the Company or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Restricted Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made and without giving effect to subsequent changes in value.

For purposes of the definition of Unrestricted Subsidiary, the definition of Restricted Payment and the covenant described under Certain Covenants Limitation on Restricted Payments :

(1) Investment shall include the portion (proportionate to the Company s equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent Investment in an Unrestricted Subsidiary equal to an amount (if positive) equal to (A) the Company s Investment in such Subsidiary at the time of such redesignation less (B) the portion (proportionate to the Company s equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

Issue Date means the date on which the Notes are originally issued.

Legal Holiday means a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York.

Lien means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

Moody s means Moody s Investors Service, Inc. and any successor to its rating agency business.

Net Available Cash from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or

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other obligations relating to such properties or assets or received in any other non-cash form), in each case net of:

(1) all legal, title and recording tax expenses, commissions and other fees and expenses incurred (including legal, accounting and investment banking fees and commissions), and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition;

(4) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition; and

(5) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Disposition or otherwise in connection with that Asset Disposition; *provided*, *however*, that upon the termination of that escrow, Net Available Cash will be increased by any portion of funds in the escrow that are released to the Company or any Restricted Subsidiary.

Net Cash Proceeds , with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys fees, accountants fees, underwriters or placement agents fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

Obligations means, with respect to any indebtedness, all obligations for principal, premium, interest, penalties, fees, indemnifications, reimbursements, and other amounts payable pursuant to the documentation governing such Indebtedness.

Officer means the Chairman of the Board, the Chief Executive Officer, the President, any Vice President, the Treasurer or the Secretary of the Company.

Officers Certificate means a certificate signed by two Officers.

Opinion of Counsel means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Company or the Trustee.

Permitted Investment means an Investment by the Company or any Restricted Subsidiary in:

(1) the Company, a Restricted Subsidiary or a Person that will, upon the making of such Investment, become a Restricted Subsidiary; *provided*, *however*, that the primary business or such Restricted Subsidiary is a Related Business;

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(2) another Person if, as a result of such Investment, such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or Restricted Subsidiary; *provided*, *however*, that such Person s primary business is a Related Business;

(3) cash and Temporary Cash Investments;

(4) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided*, *however*, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(5) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) loans or advances to officers, directors and employees made in the ordinary course of business of the Company or such Restricted Subsidiary;

(7) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(8) any Person to the extent such Investment represents the non-cash portion of the consideration received for (A) an Asset Disposition as permitted pursuant to the covenant described under Certain Covenants Limitation on Sales of Assets and Subsidiary Stock or (B) a disposition of assets not constituting an Asset Disposition;

(9) any Person where such Investment was acquired by the Company or any of its Restricted Subsidiaries (A) in exchange for any other Investment or accounts receivable held by the Company or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (B) as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(10) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;

(11) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under Certain Covenants Limitation on Indebtedness ;

(12) any Person to the extent such Investment exists on the Issue Date, and any extension, modification or renewal of any such Investments existing on the Issue Date, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay-in-kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date);

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(13) [intentionally omitted];

(14) a Receivables Entity, or any Investment by a Receivables Entity in any other Person in connection with a Qualified Receivables Transaction, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Receivables Transaction or any related Indebtedness; *provided*, *however*, that any Investment in a Receivables Entity is in the form of a purchase money note, contribution of additional receivables or an equity interest; or

(15) Persons to the extent such Investments, when taken together with all other Investments made pursuant to this clause (15) and outstanding on the date such Investment is made, do not exceed 7.5% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto.

Permitted Liens means, with respect to any Person:

(1) pledges or deposits by such Person under worker s compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, performance bonds or obligations of a like nature or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(2) Liens imposed by law, such as carriers , warehousemen s and mechanics Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review and Liens arising solely by virtue of any statutory or common law provision relating to banker s Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided*, *however*, that (A) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company in excess of those set forth by regulations promulgated by the Federal Reserve Board and (B) such deposit account is not intended by the Company or any Restricted Subsidiary to provide collateral to the depository institution;

(3) Liens for taxes, assessments or other governmental charges or claims, in each case not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(4) Liens in favor of issuers of surety bonds or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business; *provided*, *however*, that such letters of credit do not constitute Indebtedness;

(5) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate

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materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(6) Liens securing Indebtedness Incurred to finance the construction, purchase or lease of, or repairs, improvements or additions to, property, plant or equipment of such Person; *provided*, *however*, that the Lien may not extend to any other property owned by such Person or any of its Restricted Subsidiaries at the time the Lien is Incurred (other than assets and property affixed or appurtenant thereto), and the Indebtedness (other than any interest thereon) secured by the Lien may not be Incurred more than 180 days after the later of the acquisition, completion of construction, repair, improvement, addition or commencement of full operation of the property subject to the Lien;

(7) Liens to secure Indebtedness permitted pursuant to clause (b)(1) under Certain Covenants Limitation on Indebtedness ;

(8) Liens existing on the Issue Date (other than Liens referred to in the foregoing clause (7)(i));

(9) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; *provided*, *however*, that the Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(10) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; *provided*, *however*, that the Liens may not extend to any other property owned by such Person or any of its Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(11) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a Wholly Owned Subsidiary of such Person;

(12) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be Incurred under the Indenture;

(13) any Lien on accounts receivable and related assets of the types specified in the definition of Qualified Receivables Transaction incurred in connection with a Qualified Receivables Transaction;

(14) Liens in favor of the Company or the Subsidiary Guarantors;

(15) leases, subleases, licenses or sublicenses granted to third parties entered into in the ordinary course of business which do not materially interfere with the conduct of the business of the Company and the Restricted Subsidiaries and which do not secure any Indebtedness;

(16) Liens securing judgments, decrees, orders or awards for the payment of money not constituting an Event of Default in respect of which the Company shall in good faith be prosecuting an appeal or proceedings for review, which appeal or proceedings shall not have been finally terminated, or in respect of which the period within which such appeal or proceedings may be initiated shall not have expired;

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(17) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clause (6), (7)(ii), (8), (9) or (10); *provided*, *however*, that:

(A) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (i) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (6), (7)(ii), (8), (9) or (10) at the time the original Lien became a Permitted Lien and (ii) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement; and

(18) other Liens securing Indebtedness to the extent such Indebtedness, when taken together with all other Indebtedness secured by Liens Incurred pursuant to this clause (18) and outstanding on the date such other Lien is Incurred, does not exceed 5% of Consolidated Tangible Assets, as determined based on the consolidated balance sheet of the Company as of the end of the most recent fiscal quarter ending at least 45 days prior thereto.

Notwithstanding the foregoing, Permitted Liens will not include any Lien described in clause (6), (9) or (10) above to the extent such Lien applies to any Additional Assets acquired directly or indirectly from Net Available Cash pursuant to the covenant described under Certain Covenants Limitation on Sale of Assets and Subsidiary Stock . For purposes of this definition, the term Indebtedness shall be deemed to include interest on such Indebtedness.

Person means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

Preferred Stock , as applied to the Capital Stock of any Person, means Capital Stock of any class of classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

principal of a Note means the principal of the Note plus the premium, if any, payable on the Note which is due or overdue or is to become due at the relevant time.

Pro Forma Cost Savings means, with respect to any period, the reduction in costs that were

(1) directly attributable to an asset acquisition and calculated on a basis that is consistent with Regulation S-X under the Securities Act in effect and applied as of the Issue Date, or

(2) implemented by the business that was the subject of any such asset acquisition within the six months prior to or following the date of the asset acquisition and that are supportable and quantifiable by the underlying accounting records of such business,

as if, in the case of each of clause (1) and (2), all such reductions in costs had been effected as of the beginning of such period.

Purchase Money Indebtedness means Indebtedness (1) consisting of the deferred purchase price of property, conditional sale obligations, obligations under any title retention agreement,

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other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (2) Incurred to finance the acquisition by the Company or a Restricted Subsidiary of such asset, including additions and improvements, in the ordinary course of business, *provided*, *however*, that any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached; *provided*, *further*, *however*, that such Indebtedness is Incurred within 180 days after such acquisition of such assets.

Qualified Receivables Transaction means any transaction or series of transactions that may be entered into by the Company or any of its Restricted Subsidiaries pursuant to which the Company or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to:

(1) a Receivables Entity (in the case of a transfer by the Company or any of its Restricted Subsidiaries) or

(2) any other Person (in the case of a transfer by a Receivables Entity),

or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all Guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving accounts receivable; *provided*, *however*, that the financing terms, covenants, termination events and other provisions thereof shall be market terms (as determined in good faith by the chief financial officer of the Company).

The grant of a security interest in any accounts receivable of the Company or any of its Restricted Subsidiaries to secure Indebtedness permitted pursuant to clause (1) of paragraph (b) under Certain Covenants Limitation on Indebtedness shall not be deemed a Qualified Receivables Transaction.

Receivables Entity means (a) a Wholly Owned Subsidiary of the Company that is designated by the Board of Directors (as provided below) as a Receivables Entity or (b) another Person engaging in a Qualified Receivables Transaction with the Company, which Person engages in the business of the financing of accounts receivable, and in either of clause (a) or (b):

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of such entity

(A) is Guaranteed by the Company or any Subsidiary of the Company (excluding Guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings),

(B) is recourse to or obligates the Company or any Subsidiary of the Company in any way (other than pursuant to Standard Securitization Undertakings), or

(C) subjects any property or asset of the Company or any Subsidiary of the Company, directly or indirectly, contingently or otherwise, to the satisfaction thereof (other than pursuant to Standard Securitization Undertakings);

(2) the entity is not an Affiliate of the Company or is an entity with which neither the Company nor any Subsidiary of the Company has any material contract, agreement, arrangement or understanding other than on terms that the Company reasonably believes to be no less favorable to the Company or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company; and

(3) is an entity to which neither the Company nor any Subsidiary of the Company has any obligation to maintain or preserve such entity s financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the Board of Directors giving effect to such designation and an Officers Certificate certifying that such designation complied with the foregoing conditions.

Refinance means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. Refinanced and Refinancing shall have correlative meanings.

Refinancing Indebtedness means Indebtedness that Refinances any Indebtedness of the Company or any Restricted Subsidiary existing on the Issue Date or Incurred in compliance with the Indenture, including Indebtedness that Refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

(4) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced;

provided, *further*, *however*, that Refinancing Indebtedness shall not include (A) Indebtedness of a Subsidiary that is not a Subsidiary Guarantor that Refinances Indebtedness of the Company or a Subsidiary Guarantor or (B) Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

Related Business means any business in which the Company or any of the Restricted Subsidiaries was engaged on the Issue Date and any business related, ancillary or complementary to such business.

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Restricted Payment with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), (B) dividends or distributions payable solely to the Company or a Restricted Subsidiary and (C) *pro rata* dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Company held by any Person (other than by a Restricted Subsidiary) or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than by a Restricted Subsidiary), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company that is not Disqualified Stock);

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Company or any Subsidiary Guarantor (other than (A) from the Company or a Restricted Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

Restricted Subsidiary means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

Sale/Leaseback Transaction means an arrangement relating to property owned by the Company or a Restricted Subsidiary on the Issue Date or thereafter acquired by the Company or a Restricted Subsidiary whereby the Company or a Restricted Subsidiary transfers such property to a Person and the Company or a Restricted Subsidiary leases it from such Person, other than leases between the Company and a Restricted Subsidiary or between Restricted Subsidiaries.

SEC means the U.S. Securities and Exchange Commission.

Securities Act means the U.S. Securities Act of 1933, as amended.

Senior Indebtedness means with respect to any Person:

(1) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and

(2) all other Obligations of such Person (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to such Person whether or not post- filing interest is allowed in such proceeding) in respect of Indebtedness described in clause (1) above

unless, in the case of clauses (1) and (2), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness or other

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obligations are subordinate in right of payment to the Notes or the Subsidiary Guarantee of such Person, as the case may be; *provided*, *however*, that Senior Indebtedness shall not include:

(3) any obligation of such Person to the Company or any Subsidiary;

(4) any liability for Federal, state, local or other taxes owed or owing by such Person;

(5) any accounts payable or other liability to trade creditors arising in the ordinary course of business;

2,741,222

5.75%, 5/01/42

4,500 4,911,165

San Jose California Financing Authority, Refunding LRB, Convention Center Expansion & Renovation Project, Series A, 5.00%, 6/01/39

20,990 21,911,461

Snowline Joint Unified School District, COP, Refunding, Refining Project (AGC), 5.75%, 9/01/38

5,635 6,340,671

Southwestern Community College District, GO, Election of 2008, Series C, 5.25%, 8/01/36

2,625 2,816,468

West Contra Costa California Unified School District, GO:

Election of 2005, Series A (AGM), 5.00%, 8/01/35

10,000 10,288,400

Election of 2010, Series A (AGM), 5.25%, 8/01/41

5,390 5,660,362

Election of 2010, Series B, 5.50%, 8/01/39

3,195 3,470,665

Election of 2012, Series A, 5.50%, 8/01/39

2,500 2,715,700

224,490,286

Education 9.5%

California Municipal Finance Authority, RB, Emerson College, 6.00%, 1/01/42

2,750 3,051,043

Gavilan Joint Community College District, GO, Election of 2004, Series D:

5.50%, 8/01/31

2,170 2,444,961

5.75%, 8/01/35

8,400 9,548,280

University of California, RB, Series L, 5.00%, 5/15/36

3,030 3,252,947

University of California, Refunding RB, Limited Project, Series G, 5.00%, 5/15/37

38,000 40,656,200

58,953,431

Portfolio Abbreviations

To simplify the listings of portfolio holdings in the Schedules of Investments, the names and descriptions of many of the securities have been abbreviated according to the following list:

AGC	Assured Guaranty Corp.	**HDA**	Housing Development Authority
AGM	Assured Guaranty Municipal Corp.	**HFA**	Housing Finance Agency
AMBAC	American Municipal Bond Assurance Corp.	**HUD**	Department of Housing and Urban Development
AMT	Alternative Minimum Tax (subject to)	**IDA**	Industrial Development Authority
ARB	Airport Revenue Bonds	**IDB**	Industrial Development Board
BARB	Building Aid Revenue Bonds	**ISD**	Independent School District
BHAC	Berkshire Hathaway Assurance Corp.	**LRB**	Lease Revenue Bonds
CAB	Capital Appreciation Bonds	**M/F**	Multi-Family
COP	Certificates of Participation	**NPFGC**	National Public Finance Guarantee Corp.
EDA	Economic Development Authority	**Q-SBLF**	Qualified School Bond Loan Fund
EDC	Economic Development Corp.	**Radian**	Radian Financial Guaranty
ERB	Education Revenue Bonds	**RB**	Revenue Bonds
GAB	Grant Anticipation Bonds	**S/F**	Single-Family
GARB	General Airport Revenue Bonds	**Syncora**	Syncora Guarantee
GO	General Obligation Bonds		

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
California (continued)		
Health 16.3%		
ABAG Finance Authority for Nonprofit Corps., Refunding RB, Sharp Healthcare:		
6.25%, 8/01/39	$ 6,305	$ 7,111,851
Series A, 6.00%, 8/01/30	2,305	2,639,709
California Health Facilities Financing Authority, RB:		
Children s Hospital, Series A, 5.25%, 11/01/41	8,520	8,854,495
Kaiser Permanente, Series A, 5.25%, 4/01/39	7,275	7,367,974
Providence Health Services, Series B, 5.50%, 10/01/39	4,130	4,612,880
Sutter Health, Series A, 5.25%, 11/15/46	7,500	7,579,200
Sutter Health, Series B, 6.00%, 8/15/42	9,655	11,097,843
California Health Facilities Financing Authority, Refunding RB:		
Catholic Healthcare West, Series A, 6.00%, 7/01/34	3,700	4,112,180
Saint Joseph s Health System, Series A, 5.00%, 7/01/37	10,000	10,372,200
Stanford Hospital, Series A-3, 5.50%, 11/15/40	3,040	3,314,786
California Statewide Communities Development Authority, RB:		
5.25%, 8/01/31	2,500	2,566,450
Kaiser Permanente, Series A, 5.00%, 4/01/42	11,000	11,235,950
Kaiser Permanente, Series B, 5.25%, 3/01/45	12,505	12,592,535
California Statewide Communities Development Authority, Refunding RB, Trinity Health Credit Group Composite Issue, 5.00%, 12/01/41	6,235	6,392,995
Washington Township Health Care District, GO, Series B, 5.50%, 8/01/38	1,250	1,382,362
		101,233,410
State 10.2%		
California State Public Works Board, LRB, Various Capital Projects, Series I, 5.50%, 11/01/33	2,015	2,270,784
California State Public Works Board, RB:		
5.00%, 4/01/37	3,165	3,278,529
California State Prisons, Series C, 5.75%, 10/01/31	1,205	1,365,084
Department of Education, Riverside Campus Project, Series B, 6.50%, 4/01/34	3,670	4,239,547
State of California, GO, Various Purposes:		
6.00%, 3/01/33	5,000	5,849,500
6.00%, 4/01/35	150	171,614
6.00%, 4/01/38	28,265	32,425,325
University of California, RB, Limited Project, Series D (NPFGC), 5.00%, 5/15/41	13,000	13,372,190
		62,972,573
Transportation 18.1%		
Bay Area Toll Authority, RB, San Francisco Bay Area Toll Bridge, Series C-1, 0.94%, 4/01/45 (a)	4,400	4,348,476
City & County of San Francisco Airports Commission, Refunding RB, Second Series 34E, AMT (AGM), 5.75%, 5/01/24	5,000	5,650,450
City & County of San Francisco California Airports Commission, ARB, Series E, 6.00%, 5/01/39	9,650	11,115,449
City & County of San Francisco California Airports Commission, Refunding RB, AMT, Series A, 5.00%, 5/01/29	6,435	6,818,011
City of Los Angeles California Department of Airports, ARB, Los Angeles International Airport, Senior Series A, AMT, 5.00%, 5/15/38	2,550	2,659,523

Municipal Bonds	Par (000)	Value
California (concluded)		
Transportation (concluded)		
City of Los Angeles California Department of Airports, RB, Los Angeles International Airport, Senior Series D, 5.25%, 5/15/29	$ 2,590	$ 2,836,076
City of Los Angeles California Department of Airports, Refunding RB, Los Angeles International Airport Series A:		
5.25%, 5/15/39	4,335	4,671,829
Senior, 5.00%, 5/15/40 (b)	3,750	3,933,075
City of San Jose California, Refunding ARB, Series A-1, AMT:		

5.25%, 3/01/23	3,785	4,214,560
6.25%, 3/01/34	1,400	1,576,190
County of Orange California, ARB, Series B, 5.75%, 7/01/34	6,345	6,977,977
County of Sacramento California, ARB:		
Senior Series A (AGC), 5.50%, 7/01/41	8,190	9,068,377
Senior Series B, 5.75%, 7/01/39	2,650	2,953,346
Senior Series B, AMT (AGM), 5.75%, 7/01/28	13,275	14,926,277
Senior Series B, AMT (AGM), 5.25%, 7/01/33	19,530	20,316,278
County of San Diego California Regional Airport Authority, Refunding ARB, Sub-Series A, 5.00%, 7/01/40	4,055	4,144,088
Los Angeles Harbor Department, RB, Series B, 5.25%, 8/01/34	5,530	6,154,116
		112,364,098
Utilities 21.0%		
Anaheim Public Financing Authority, RB, Electric System Distribution Facilities, Series A, 5.38%, 10/01/36	2,200	2,454,870
City of Los Angeles California Wastewater System, Refunding RB, Sub-Series A, 5.00%, 6/01/28	2,000	2,249,100
City of San Francisco California Public Utilities Commission Water, RB:		
Series B, 5.00%, 11/01/30	10,000	11,024,500
Series B&C, 5.00%, 11/01/41	5,000	5,289,100
Cucamonga Valley Water District Financing Authority, RB, Water Utility, 5.00%, 9/01/37	2,500	2,650,200
Dublin-San Ramon Services District, Refunding RB, 6.00%, 8/01/41	4,000	4,694,520
East Bay Municipal Utility District, Refunding RB:		
Series A (NPFGC), 5.00%, 6/01/32	11,935	12,874,404
Series A (NPFGC), 5.00%, 6/01/37	6,670	7,138,300
Sub-Series A (AGM), 5.00%, 6/01/37	11,190	11,975,650
Sub-Series A (AMBAC), 5.00%, 6/01/33	5,000	5,396,850
Eastern Municipal Water District, COP, Series H, 5.00%, 7/01/33	2,505	2,655,901
Imperial Irrigation District, Refunding RB, Electric System, 5.13%, 11/01/38	9,500	10,057,555
Los Angeles Department of Water & Power, RB, Series A, 5.38%, 7/01/38	9,000	9,991,800
Los Angeles Department of Water & Power, Refunding RB, Series A:		
5.25%, 7/01/39	16,000	17,267,680
System, 5.00%, 7/01/30	4,325	4,811,087
San Diego Public Facilities Financing Authority Sewer, Refunding RB, Senior Series A:		
5.25%, 5/15/34	1,060	1,156,068
5.25%, 5/15/39	10,000	10,777,000
San Juan Water District, Refunding RB, San Juan & Citrus Heights, 5.25%, 2/01/33	7,325	8,009,521
		130,474,106
Total Municipal Bonds 111.7%		693,223,140

See Notes to Financial Statements.

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Schedule of Investments (continued)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

(Percentages shown are based on Net Assets)

Municipal Bonds Transferred to Tender Option Bond Trusts (c)	**Par (000)**	**Value**
California 49.9%		
County/City/Special District/School District 27.3%		
County of Alameda California Joint Powers Authority, Refunding LRB (AGM), 5.00%, 12/01/34	$ 13,180	$ 13,826,479
Desert Community College District California, GO, Series C (AGM), 5.00%, 8/01/37	16,530	17,424,769
Foothill-De Anza Community College District, GO, Series C, 5.00%, 8/01/40	10,000	10,609,200
Los Angeles Community College District California, GO:		
Election of 2001, Series A (NPFGC), 5.00%, 8/01/32	6,647	7,122,469
Election of 2001, Series E-1, 5.00%, 8/01/33	11,770	12,624,031
Election of 2003, Series E (AGM), 5.00%, 8/01/31	11,216	11,948,421
Election of 2003, Series F-1, 5.00%, 8/01/33	10,000	10,725,600
Los Angeles Community College District California, GO, Refunding, Election of 2008, Series A, 6.00%, 8/01/33	9,596	11,114,842
Los Angeles County Metropolitan Transportation Authority, Refunding RB, Proposition A, First Tier, Senior Series A (AMBAC), 5.00%, 7/01/35	8,997	9,390,951
Los Angeles County Sanitation Districts Financing Authority, Refunding RB, Capital Project 14 (BHAC), 5.00%, 10/01/34	7,917	8,289,808
Poway Unified School District, GO, Election of 2002, Improvement District 02, Series 1-B (AGM), 5.00%, 8/01/30	10,000	10,652,700
San Bernardino Community College District California, GO, Election of 2002, Series C (AGM), 5.00%, 8/01/31	17,770	18,929,848
San Francisco Bay Area Rapid Transit District, Refunding RB, Series A (NPFGC):		
5.00%, 7/01/30	23,100	24,101,154
5.00%, 7/01/34	2,499	2,607,634
		169,367,906
Education 6.8%		
Los Rios Community College District, GO, Election of 2008, Series A, 5.00%, 8/01/35	11,000	11,852,390
Riverside Community College District, GO, Election of 2004, Series C (NPFGC), 5.00%, 8/01/32	8,910	9,546,709
University of California, RB:		
Limited Project, Series D (AGM), 5.00%, 5/15/41	8,000	8,353,760
Series O, 5.75%, 5/15/34	11,190	12,727,245
		42,480,104
Transportation 1.7%		
San Mateo County Transportation Authority, Refunding RB, Series A (NPFGC), 5.00%, 6/01/32	10,000	10,391,100

Municipal Bonds Transferred to Tender Option Bond Trusts (c)	**Par (000)**	**Value**
California (concluded)		
Utilities 14.1%		
City of Napa California Water System, RB, (AMBAC), 5.00%, 5/01/35	$ 9,100	$ 9,416,316
County of Sacramento California Sanitation Districts Financing Authority, RB, Sacramento Regional County Sanitation (NPFGC), 5.00%, 12/01/36	4,500	4,776,300
County of San Diego California Water Authority, COP, Refunding, Series A (AGM), 5.00%, 5/01/33	16,740	18,056,601
East Bay Municipal Utility District, RB, Sub-Series A (NPFGC), 5.00%, 6/01/35	12,070	12,587,682
East Bay Municipal Utility District, Refunding RB, Sub-Series A (AMBAC), 5.00%, 6/01/37	14,510	15,889,901
Los Angeles Department of Water & Power, RB, Power System, Sub-Series A-2 (AGM), 5.00%, 7/01/35	7,500	7,993,350
Metropolitan Water District of Southern California, RB, Series A (AGM), 5.00%, 7/01/35	12,870	13,473,989
Rancho Water District Financing Authority, Refunding RB, Series A (AGM), 5.00%, 8/01/34	5,008	5,341,362
		87,535,501
Total Municipal Bonds Transferred to Tender Option Bond Trusts 49.9%		309,774,611
Total Long-Term Investments (Cost $961,180,441) 161.6%		1,002,997,751

Short-Term Securities	**Shares**	
BIF California Municipal Money Fund, 0.00% (d)(e)	5,813,118	5,813,118
Total Short-Term Securities		
(Cost — $5,813,118) — 0.9%		5,813,118
Total Investments (Cost — $966,993,559) — 162.5%		1,008,810,869
Other Assets Less Liabilities — 2.6%		16,562,329
Liability for TOB Trust Certificates, Including Interest		
Expense and Fees Payable — (24.2)%		(150,548,161)
VMTP Shares, at Liquidation Value — (40.9)%		(254,000,000)
Net Assets Applicable to Common Shares — 100.0%		$ 620,825,037

Notes to Schedule of Investments

(a) Variable rate security. Rate shown is as of report date.

(b) When-issued security. Unsettled when-issued transactions were as follows:

Counterparty	**Value**	**Unrealized Depreciation**
Citigroup Global Markets Inc.	$ 3,933,075	$ (28,509)

(c) Represent bonds transferred to a TOB. In exchange for which the Fund acquired residual interest certificates. These bonds serve as collateral in a financing transaction. See Note 3 of the Notes to Financial Statements for details of municipal bonds transferred to TOBs.

See Notes to Financial Statements.

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Schedule of Investments (concluded)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

(d) Investments in issuers considered to be an affiliate of the Fund during the six months ended January 31, 2014, for purposes of Section 2(a)(3) of the 1940 Act, were as follows:

Affiliate	Shares Held at July 31, 2013	Net Activity	Shares Held at January 31, 2014	Income
BIF California Municipal Money Fund	501,963	5,311,155	5,813,118	$ 203

(e) Represents the current yield as of report date.

Financial futures contracts outstanding as of January 31, 2014 were as follows:

Contracts Sold	Issue	Exchange	Expiration	Notional Value	Unrealized Depreciation
(400)	10-Year US Treasury Note	Chicago Board of Trade	March 2014	$ 50,300,000	$ (553,625)

For Fund compliance purposes, the Fund s sector classifications refer to any one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by investment advisor. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

Level 2 other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund s own assumptions used in determining the fair value of investments and derivative financial instruments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund s policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Fund s policy regarding valuation of investments and derivative financial instruments, please refer to Note 2 of the Notes to Financial Statements.

The following tables summarize the Fund s investments and derivative financial instruments categorized in the disclosure hierarchy as of January 31, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Long-Term Investments[1]		$ 1,002,997,751		$ 1,002,997,751
Short-Term Securities	$ 5,813,118			5,813,118
Total	$ 5,813,118	$ 1,002,997,751		$ 1,008,810,869

[1] See above Schedule of Investments for values in each sector.

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments[2]				
Liabilities:				
Interest rate contracts	$ (553,625)			$ (553,625)

[2] Derivative financial instruments are financial futures contracts, which are valued at the unrealized appreciation/depreciation on the instrument.

The carrying amount for certain of the Fund s assets and/or liabilities approximates fair value for financial statement purposes. As of January 31, 2014, such assets and/or liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash pledged for financial futures contracts	$ 664,000			$ 664,000
Liabilities:				
TOB trust certificates		$ (150,520,948)		(150,520,948)
VMTP Shares		(254,000,000)		(254,000,000)
Total	$ 664,000	$ (404,520,948)		$ (403,856,948)

There were no transfers between levels during the six months ended January 31, 2014.

See Notes to Financial Statements.

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Schedule of Investments January 31, 2014 (Unaudited)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
New Jersey 141.5%		
Corporate 2.4%		
New Jersey EDA, RB, Solid Waste Disposal, Waste Management, Series A, AMT, 5.30%, 6/01/15 (a)	$ 2,500	$ 2,535,425
New Jersey EDA, Refunding RB, New Jersey American Water Co., Inc. Project AMT:		
Series A, 5.70%, 10/01/39	2,500	2,670,325
Series B, 5.60%, 11/01/34	2,150	2,312,368
		7,518,118
County/City/Special District/School District 18.9%		
Borough of Hopatcong New Jersey, GO, Refunding, Sewer (AMBAC), 4.50%, 8/01/33	2,690	2,742,240
City of Perth Amboy New Jersey, GO, Refunding, CAB (AGM):		
5.00%, 7/01/32	4,605	4,774,372
5.00%, 7/01/33	1,395	1,442,249
5.00%, 7/01/37	1,470	1,502,325
County of Essex New Jersey Improvement Authority, Refunding RB, Project Consolidation (NPFGC):		
5.50%, 10/01/27	250	299,407
5.50%, 10/01/28	4,840	5,796,190
County of Hudson New Jersey Improvement Authority, RB:		
County Secured, County Services Building Project (AGM), 5.00%, 4/01/27	750	803,100
Harrison Parking Facility Project, Series C (AGC), 5.25%, 1/01/39	2,000	2,105,040
Harrison Parking Facility Project, Series C (AGC), 5.38%, 1/01/44	3,600	3,789,288
County of Middlesex New Jersey Improvement Authority, RB, Senior Citizens Housing Project, AMT (AMBAC), 5.50%, 9/01/30	500	501,650
County of Monmouth New Jersey Improvement Authority, RB, Governmental Loan (AMBAC):		
5.35%, 12/01/17	5	5,018
5.38%, 12/01/18	5	5,018
County of Union New Jersey, GO, Refunding:		
4.00%, 3/01/29	2,590	2,667,286
4.00%, 3/01/30	2,590	2,650,943
4.00%, 3/01/31	2,925	2,973,701
County of Union New Jersey Utilities Authority, Refunding RB, Series A:		
Resources Recovery Facility, Covanta Union, Inc., AMT, 5.25%, 12/01/31	450	472,653
Solid Waste System, County Deficiency Agreement, 5.00%, 6/15/41	5,415	5,722,139
Edgewater Borough Board of Education, GO, Refunding, (AGM):		
4.25%, 3/01/34	1,235	1,279,164
4.25%, 3/01/35	1,300	1,337,882
4.30%, 3/01/36	1,370	1,406,702
Morristown Parking Authority, RB, (NPFGC):		
5.00%, 8/01/30	1,830	1,897,088
5.00%, 8/01/33	3,000	3,089,190
New Jersey Sports & Exposition Authority, Refunding RB, (NPFGC):		
5.50%, 3/01/22	3,150	3,630,595
5.50%, 3/01/21	5,890	6,785,044
New Jersey State Transit Corp., COP, Federal Transit Administration Grants, Subordinate, Series A (AGM) (NPFGC), 5.00%, 9/15/21	2,000	2,134,700
Newark Housing Authority, Refunding RB, Newark Redevelopment Project (NPFGC), 4.38%, 1/01/37	620	563,921
		60,376,905

Municipal Bonds	Par (000)	Value
New Jersey (continued)		
Education 26.0%		
New Jersey EDA, LRB, Rutgers - The State University of New Jersey, College Avenue Redevelopment Project, 5.00%, 6/15/33	$ 2,185	$ 2,406,319
New Jersey Educational Facilities Authority, RB:		

Montclair State University, Series A (AMBAC), 5.00%, 7/01/21	1,200	1,317,636
Montclair State University, Series A (AMBAC), 5.00%, 7/01/22	2,880	3,152,534
Richard Stockton College, Series F (NPFGC), 5.00%, 7/01/31	2,625	2,772,236
Rowan University, Series C (NPFGC), 5.00%, 7/01/14 (b)	3,260	3,325,135
Rowan University, Series C (NPFGC), 5.13%, 7/01/14 (b)	3,615	3,689,107
New Jersey Educational Facilities Authority, Refunding RB:		
College of New Jersey, Series D (AGM), 5.00%, 7/01/35	9,740	10,253,103
Montclair State University, Series J (NPFGC), 4.25%, 7/01/30	3,775	3,790,364
New Jersey Institute of Technology, Series H, 5.00%, 7/01/31	3,000	3,173,430
Ramapo College, Series B, 5.00%, 7/01/37	845	884,546
Ramapo College, Series I (AMBAC), 4.25%, 7/01/31	1,250	1,256,275
Seton Hall University, Series D, 5.00%, 7/01/38	360	380,761
Seton Hall University, Series D, 5.00%, 7/01/43	430	444,672
Stevens Institute of Technology, Series A, 5.00%, 7/01/27	2,800	2,867,844
Stevens Institute of Technology, Series A, 5.00%, 7/01/34	900	912,078
William Paterson University Series C (AGC), 4.75%, 7/01/34	4,000	4,116,960
William Paterson University, Series C (AGC), 5.00%, 7/01/28	250	270,330
New Jersey Higher Education Student Assistance Authority, RB, Senior Student Loan, Series 1A, AMT:		
4.00%, 12/01/23	200	198,878
3.75%, 12/01/26	1,890	1,756,660
4.00%, 12/01/28	1,790	1,684,408
4.50%, 12/01/28	3,380	3,401,869
4.00%, 12/01/29	710	656,303
4.50%, 12/01/29	4,150	4,135,807
4.63%, 12/01/30	4,080	4,079,755
4.00%, 12/01/31	1,335	1,207,508
4.13%, 12/01/35	710	627,200
New Jersey Higher Education Student Assistance Authority, Refunding RB, Series 1, AMT:		
5.38%, 12/01/24	1,500	1,576,035
5.50%, 12/01/25	2,500	2,614,200
New Jersey Institute of Technology, RB, Series A, 5.00%, 7/01/42	5,045	5,248,616
Rutgers - The State University of New Jersey, Refunding RB, Series L:		
5.00%, 5/01/30	1,100	1,231,208
5.00%, 5/01/43	7,150	7,640,776
University of Medicine & Dentistry of New Jersey, COP (NPFGC), 5.00%, 6/15/14 (b)	2,000	2,035,720
		83,108,273
Health 20.2%		
New Jersey Health Care Facilities Financing Authority, RB:		
Greystone Park Psychiatric Hospital (AMBAC), 5.00%, 9/15/15 (b)	10,775	11,602,951

See Notes to Financial Statements.

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Schedule of Investments (continued)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
New Jersey (continued)		
Health (concluded)		
New Jersey Health Care Facilities Financing Authority, RB (concluded):		
Meridian Health System Obligated Group, Series I (AGC), 5.00%, 7/01/38	$ 730	$ 750,039
Meridian Health System Obligated Group, Series II (AGC), 5.00%, 7/01/38	6,150	6,318,818
Meridian Health System Obligated Group, Series V (AGC), 5.00%, 7/01/38	3,835	3,940,271
Robert Wood Johnson University Hospital, Series A, 5.50%, 7/01/43	4,885	5,167,988
Virtua Health, Series A (AGC), 5.50%, 7/01/38	3,035	3,176,370
New Jersey Health Care Facilities Financing Authority, Refunding RB:		
5.00%, 7/01/28	2,130	2,292,050
5.00%, 7/01/29	510	547,077
5.50%, 7/01/31	2,880	3,106,858
AHS Hospital Corp., 6.00%, 7/01/41	3,080	3,503,592
Catholic Health East Issue, 5.00%, 11/15/33	1,375	1,420,430
Hackensack University Medical (AGC), 5.13%, 1/01/27	1,500	1,582,830
Hackensack University Medical (AGM), 4.63%, 1/01/30	5,480	5,592,066
Kennedy Health System, 5.00%, 7/01/42	360	362,689
Meridian Health System Obligated Group, 5.00%, 7/01/25	700	765,282
Meridian Health System Obligated Group, 5.00%, 7/01/26	1,590	1,717,979
St. Barnabas Health Care System, Series A, 5.00%, 7/01/24	1,820	1,953,879
St. Barnabas Health Care System, Series A, 5.63%, 7/01/32	4,010	4,247,553
St. Barnabas Health Care System, Series A, 5.63%, 7/01/37	3,560	3,711,976
St. Barnabas Health, Series A, 4.00%, 7/01/26	1,740	1,689,331
St. Luke s Warren Hospital Obligated Group, 5.00%, 8/15/34	740	758,034
St. Luke s Warren Hospital Obligated Group, 4.00%, 8/15/37	440	385,594
		64,593,657
Housing 9.5%		
New Jersey Housing & Mortgage Finance Agency, RB:		
Capital Fund Program, Series A (AGM), 5.00%, 5/01/27	4,800	5,058,816
Capital Fund Program, Series A (AGM) (HUD), 4.70%, 11/01/25	6,120	6,350,418
M/F Housing, Series A, 4.55%, 11/01/43	3,575	3,450,447
M/F Housing, Series A, AMT (NPFGC), 4.85%, 11/01/39	935	882,444
S/F Housing, Series B, 4.50%, 10/01/30	6,920	7,123,102
New Jersey Housing & Mortgage Finance Agency, Refunding RB, AMT:		
M/F Housing, Series 2, 4.60%, 11/01/38	3,420	3,116,372
M/F Housing, Series 2, 4.75%, 11/01/46	3,015	2,674,999
S/F Housing, Series T, 4.70%, 10/01/37	630	631,430
New Jersey State Housing & Mortgage Finance Agency, RB, S/F Housing, Series AA, 6.50%, 10/01/38	1,115	1,123,050
		30,411,078
State 32.3%		
Garden State Preservation Trust, RB:		
CAB, Series B (AGM), 0.00%, 11/01/23 (c)	9,000	6,642,090
CAB, Series B (AGM), 0.00%, 11/01/25 (c)	10,000	6,669,700
Election of 2005, Series A (AGM), 5.80%, 11/01/15 (b)	1,960	2,147,866
Election of 2005, Series A (AGM), 5.80%, 11/01/15 (b)	2,730	2,991,670

Municipal Bonds	**Par (000)**	**Value**
New Jersey (continued)		
State (concluded)		
Garden State Preservation Trust, Refunding RB, Series C (AGM):		
5.25%, 11/01/20	$ 5,000	$ 6,054,300
5.25%, 11/01/21	7,705	9,333,837
New Jersey EDA, RB:		
Cigarette Tax (Radian), 5.50%, 6/15/14 (b)	585	596,671

Cigarette Tax (Radian), 5.75%, 6/15/14 (b)	1,180	1,204,638
Cigarette Tax (Radian), 5.75%, 6/15/14 (b)	2,000	2,041,760
Liberty State Park Project, Series C, 5.00%, 3/01/22	2,670	2,787,400
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/24	1,785	2,068,369
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/25	4,000	4,595,160
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/26	7,500	8,572,425
Motor Vehicle Surcharge, Series A (NPFGC), 5.25%, 7/01/33	11,105	11,288,344
School Facilities Construction (AGC), 6.00%, 12/15/18 (b)	945	1,163,219
School Facilities Construction (AGC), 6.00%, 12/15/34	1,855	2,099,341
School Facilities Construction, Series L (AGM), 5.00%, 3/01/15 (b)	9,000	9,468,990
School Facilities Construction, Series O, 5.25%, 3/01/15 (b)	1,420	1,497,518
School Facilities Construction, Series U, 5.00%, 9/01/37	5,000	5,234,150
School Facilities Construction, Series U (AMBAC), 5.00%, 9/01/37	2,000	2,093,660
School Facilities Construction, Series Y, 5.00%, 9/01/33	3,000	3,118,170
New Jersey EDA, Refunding RB:		
Cigarette Tax, 5.00%, 6/15/26	895	943,652
Cigarette Tax, 5.00%, 6/15/28	1,520	1,587,549
Cigarette Tax, 5.00%, 6/15/29	2,000	2,071,840
School Facilities Construction, Series N-1 (NPFGC), 5.50%, 9/01/27	1,000	1,171,290
School Facilities Construction, Series NN, 5.00%, 3/01/29	4,500	4,871,835
State of New Jersey, COP, Equipment Lease Purchase, Series A, 5.25%, 6/15/27	1,080	1,164,208
		103,479,652
Transportation 27.8%		
Delaware River Port Authority, RB, Series D (AGM), 5.00%, 1/01/40	3,700	3,839,786
Delaware River Port Authority, RB:		
5.00%, 1/01/29	1,250	1,372,938
5.00%, 1/01/37	4,465	4,718,701
Delaware River Port Authority, Refunding RB, Port District Project:		
5.00%, 1/01/26	1,745	1,789,096
5.00%, 1/01/27	1,300	1,315,808
New Jersey EDA, RB, The Goethals Bridge Replacement Project, AMT:		
5.13%, 1/01/34	1,630	1,631,809
5.38%, 1/01/43	5,495	5,530,443
New Jersey State Turnpike Authority, RB, Growth & Income Securities, Series B (AMBAC), 0.00%, 1/01/35 (d)	7,615	7,345,201
New Jersey State Turnpike Authority, Refunding RB:		
Series A (AGM), 5.25%, 1/01/26	4,900	5,766,173
Series A (AGM), 5.25%, 1/01/29	2,000	2,317,900
Series A (AGM), 5.25%, 1/01/30	4,000	4,635,720

See Notes to Financial Statements.

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Schedule of Investments (continued)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
New Jersey (concluded)		
Transportation (concluded)		
New Jersey State Turnpike Authority, Refunding RB (concluded):		
Series A (BHAC), 5.25%, 1/01/29	$ 500	$ 589,480
Series C (NPFGC), 6.50%, 1/01/16 (e)	255	285,087
Series C (NPFGC), 6.50%, 1/01/16 (e)	1,535	1,628,389
Series C (NPFGC), 6.50%, 1/01/16 (e)	305	340,987
Series C (NPFGC), 6.50%, 1/01/16	605	672,736
New Jersey Transportation Trust Fund Authority, RB:		
CAB, Transportation System, Series C (AMBAC), 0.00%, 12/15/36 (c)	7,210	2,025,001
CAB, Transportation System, Series A, 0.00%, 12/15/35 (c)	6,000	1,846,980
CAB, Transportation System, Series C (AGM), 0.00%, 12/15/32 (c)	4,050	1,517,454
CAB, Transportation System, Series C (AMBAC), 0.00%, 12/15/35 (c)	1,400	422,786
Transportation Program, Series AA, 5.00%, 6/15/33	4,300	4,528,072
Transportation System, Series A, 6.00%, 6/15/35	4,365	5,004,342
Transportation System, Series A (NPFGC), 5.75%, 6/15/24	1,205	1,460,111
Transportation System, Series A (AGC), 5.63%, 12/15/28	2,000	2,291,060
Transportation System, Series AA, 5.25%, 6/15/33	4,050	4,392,792
Transportation System, Series B, 5.50%, 6/15/31	1,425	1,564,051
Transportation System, Series B, 5.25%, 6/15/36	1,775	1,887,393
Port Authority of New York & New Jersey, Refunding RB, AMT, 5.00%, 12/01/33	2,850	3,006,094
Port Authority of New York & New Jersey, ARB, Special Project JFK International Air Terminal LLC Project, AMT (NPFGC):		
Series 6, 5.75%, 12/01/25	3,000	3,013,920
Series 6, 6.25%, 12/01/15	1,500	1,570,305
Series 8, 6.00%, 12/01/42	2,500	2,706,100
Port Authority of New York & New Jersey, Refunding ARB, Consolidated, 152nd Series, AMT, 5.75%, 11/01/30	5,175	5,690,896
South Jersey Transportation Authority, Refunding RB, Transportation System, Series A:		
5.00%, 11/01/28	1,025	1,089,093
5.00%, 11/01/29	1,025	1,079,089
		88,875,793
Utilities 4.4%		
County of Essex New Jersey Utilities Authority, Refunding RB, (AGC), 4.13%, 4/01/22	2,000	2,088,160
North Hudson Sewerage Authority, Refunding RB, Series A (NPFGC), 5.13%, 8/01/20	4,335	5,210,757
Rahway Valley Sewerage Authority, RB, CAB, Series A (NPFGC) (c):		
0.00%, 9/01/28	6,600	3,429,426
0.00%, 9/01/29	6,900	3,381,207
		14,109,550
Total Municipal Bonds in New Jersey		452,473,026
Guam 1.0%		
State 1.0%		
Territory of Guam, RB, Business Privilege Tax Bonds:		
Series A, 5.25%, 1/01/36	305	315,767
Series A, 5.13%, 1/01/42	2,500	2,557,850
Series B-1, 5.00%, 1/01/37	395	403,267
		3,276,884

Municipal Bonds	**Par (000)**	**Value**
Puerto Rico 0.5%		
Health 0.5%		
Puerto Rico Industrial Tourist Educational Medical & Environmental Control Facilities Financing Authority, RB, Hospital De La Concepcion, Series A, 6.50%, 11/15/20	$ 1,750	$ 1,758,890

Total Municipal Bonds 143.0%		457,508,800
Municipal Bonds Transferred to Tender Option Bond Trusts (f)		
New Jersey 19.4%		
County/City/Special District/School District 4.1%		
County of Union New Jersey Utilities Authority, Refunding LRB, Resource Recovery Facility, Covanta Union, Inc., Series A, AMT, 5.25%, 12/01/31	12,370	12,992,706
Education 0.3%		
Rutgers - The State University of New Jersey, RB, Series F, 5.00%, 5/01/39	990	1,058,967
State 5.1%		
Garden State Preservation Trust, RB, Election of 2005, Series A (AGM), 5.75%, 11/01/28	9,160	11,216,695
New Jersey EDA, Refunding RB, 5.00%, 3/01/29 (g)	4,780	5,175,256
		16,391,951
Transportation 9.9%		
New Jersey State Turnpike Authority, RB, Series A, 5.00%, 1/01/38 (g)	5,200	5,450,848
New Jersey Transportation Trust Fund Authority, RB, Transportation System, Series B, 5.25%, 6/15/36 (g)	1,900	2,020,746
Port Authority of New York & New Jersey, ARB, Consolidated, 163rd Series, AMT, 5.00%, 7/15/39	11,456	12,095,549
Port Authority of New York & New Jersey, RB, Consolidated, 169th Series, AMT, 5.00%, 10/15/41	5,500	5,650,480
Port Authority of New York & New Jersey, Refunding RB, Consolidated, 152nd Series, AMT, 5.25%, 11/01/35	5,998	6,401,390
		31,619,013
Total Municipal Bonds Transferred to Tender Option Bond Trusts 19.4%		62,062,637
Total Long-Term Investments (Cost $498,526,736) 162.4%		519,571,437
Short-Term Securities	**Shares**	
BIF New Jersey Municipal Money Fund, 0.00% (h)(i)	3,993,620	3,993,620
Total Short-Term Securities (Cost $3,993,620) 1.3%		3,993,620
Total Investments (Cost $502,520,356) 163.7%		523,565,057
Other Assets Less Liabilities 1.1%		3,723,482
Liability for TOB Trust Certificates, Including Interest Expense and Fees Payable (10.8)%		(34,705,889)
VRDP Shares, at Liquidation Value (54.0)%		(172,700,000)
Net Assets Applicable to Common Shares 100.0%		$ 319,882,650

See Notes to Financial Statements.

Schedule of Investments (continued)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

Notes to Schedule of Investments

(a) Variable rate security. Rate shown is as of report date.

(b) US government securities, held in escrow, are used to pay interest on this security, as well as to retire the bond in full at the date indicated, typically at a premium to par.

(c) Zero-coupon bond.

(d) Represents a step-up bond that pays an initial coupon rate for the first period and then a higher coupon rate for the following periods. Rate shown is as of report date.

(e) Security is collateralized by municipal or US Treasury obligations.

(f) Represent bonds transferred to a TOB. In exchange for which the Fund acquired residual interest certificates. These bonds serve as collateral in a financing transaction. See Note 3 of the Notes to Financial Statements for details of municipal bonds transferred to TOBs.

(g) All or a portion of security is subject to a recourse agreement, which may require the Fund to pay the liquidity provider in the event there is a shortfall between the TOB trust certificates and proceeds received from the sale of the security contributed to the TOB trust. In the case of a shortfall, the aggregate maximum potential amount the Fund could ultimately be required to pay under the agreements, which expire from June 15, 2019 to September 1, 2020 is $8,818,272.

(h) Investments in issuers considered to be an affiliate of the Fund during the six months ended January 31, 2014, for purposes of Section 2(a)(3) of the 1940 Act, were as follows:

Affiliate	Shares Held at July 31, 2013	Net Activity	Shares Held at January 31, 2014	Income
BIF New Jersey Municipal Money Fund	7,170,770	(3,177,150)	3,993,620	$ 16

(i) Represents the current yield as of report date.

Financial futures contracts outstanding as of January 31, 2014 were as follows:

Contracts Sold	Issue	Exchange	Expiration	Notional Value	Unrealized Depreciation
(110)	10-Year US Treasury Note	Chicago Board of Trade	March 2014	$ 13,832,500	$ (122,165)

For Fund compliance purposes, the Fund s sector classifications refer to any one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by investment advisor. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

Level 2 other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund s own assumptions used in determining the fair value of investments and derivative financial instruments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund s policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Fund s policy regarding valuation of investments and derivative financial instruments, please refer to Note 2 of the Notes to Financial Statements.

The following tables summarize the Fund s investments and derivative financial instruments categorized in the disclosure hierarchy as of January 31, 2014:

	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investments:				
Long-Term Investments[1]		$ 519,571,437		$ 519,571,437
Short-Term Securities	$ 3,993,620			3,993,620
Total	$ 3,993,620	$ 519,571,437		$ 523,565,057

[1] See above Schedule of Investments for values in each sector.

	Level 1	**Level 2**	**Level 3**	**Total**
Derivative Financial Instruments[2]				
Liabilities:				
Interest rate contracts	$ (122,165)			$ (122,165)

[2] Derivative financial instruments are financial futures contracts, which are valued at the unrealized appreciation/depreciation on the instrument.

See Notes to Financial Statements.

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Schedule of Investments (concluded)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

The carrying amount for certain of the Fund s assets and/or liabilities approximates fair value for financial statement purposes. As of January 31, 2014, such assets and/or liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash pledged for financial futures contracts	$ 173,000			$ 173,000
Liabilities:				
TOB trust certificates		$ (34,699,311)		(34,699,311)
VRDP Shares		(172,700,000)		(172,700,000)
Total	$ 173,000	$ (207,399,311)		$ (207,226,311)

There were no transfers between levels during the six months ended January 31, 2014.

See Notes to Financial Statements.

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Schedule of Investments January 31, 2014 (Unaudited)

BlackRock MuniYield Investment Quality Fund (MFT)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Alabama 4.9%		
City of Birmingham Alabama Special Care Facilities Financing Authority, RB, Children s Hospital (AGC):		
6.13%, 6/01/34	$ 1,500	$ 1,699,995
6.00%, 6/01/39	2,985	3,371,140
City of Madison Alabama, GO, Refunding, 5.00%, 4/01/37	375	394,691
City of Selma Alabama IDB, RB, Gulf Opportunity Zone, International Paper Co. Project, Series A, 5.38%, 12/01/35	350	352,082
		5,817,908
California 21.2%		
California Educational Facilities Authority, RB, University of Southern California, Series A, 5.25%, 10/01/38	1,960	2,155,843
California Health Facilities Financing Authority, RB, Sutter Health, Series B, 6.00%, 8/15/42	1,150	1,321,856
California State Public Works Board, LRB:		
Department of Corrections and Rehabilitation, Series F, 5.25%, 9/01/33	490	527,823
Various Capital Projects, Series I, 5.50%, 11/01/31	1,000	1,117,490
City & County of San Francisco California Airports Commission, Refunding ARB, 2nd Series A, AMT:		
5.50%, 5/01/28	720	799,826
5.25%, 5/01/33	560	595,375
City of San Jose California, Refunding ARB, Series A-1, AMT:		
5.50%, 3/01/30	1,600	1,727,264
6.25%, 3/01/34	1,250	1,407,313
County of Sacramento California, ARB, Senior Series A (AGC), 5.50%, 7/01/41	1,400	1,550,150
Kern Community College District, GO, Safety, Repair & Improvement, Election of 2002, Series C, 5.50%, 11/01/33	970	1,105,790
Los Angeles Community College District California, GO, Election of 2001, Series A (NPFGC), 5.00%, 8/01/32	2,780	2,978,659
Redondo Beach Unified School District, GO, Election of 2008, Series E, 5.50%, 8/01/34	1,000	1,079,560
San Diego Public Facilities Financing Authority Water, Refunding RB, Series B (AGC), 5.38%, 8/01/34	1,020	1,133,883
State of California, GO, Various Purposes (AGC), 5.50%, 11/01/39	3,450	3,817,736
University of California, Refunding RB:		
Limited Project, Series G, 5.00%, 5/15/37 (a)	1,000	1,069,900
The Regents of Medical Center, Series J, 5.25%, 5/15/38	2,235	2,383,695
Washington Township Health Care District, GO, Election of 2004, Series B, 5.50%, 8/01/40	370	407,858
		25,180,021
Colorado 2.1%		
City & County of Denver Colorado Airport System, ARB, Series A, AMT:		
5.50%, 11/15/28	500	543,740
5.50%, 11/15/30	225	242,087
5.50%, 11/15/31	270	288,519
Colorado Health Facilities Authority, RB, Hospital, NCMC, Inc. Project, Series B (AGM), 6.00%, 5/15/26	1,300	1,454,869
		2,529,215
Florida 13.9%		
City of Jacksonville Florida, Refunding RB, Series A, 5.25%, 10/01/33	270	293,884
County of Hillsborough Florida Aviation Authority, Refunding ARB, Tampa International Airport, Series A, AMT, 5.50%, 10/01/29	1,170	1,264,630

Municipal Bonds	Par (000)	Value
Florida (concluded)		
County of Lee Florida, Refunding ARB, Series A, AMT, 5.38%, 10/01/32	$ 1,000	$ 1,040,800
County of Manatee Florida Housing Finance Authority, RB, Series A, AMT (Ginnie Mae, Fannie Mae & Freddie Mac), 5.90%, 9/01/40	155	158,230

County of Miami-Dade Florida, RB, Seaport:		
Series A, 6.00%, 10/01/38	1,840	2,055,814
Series A, 5.50%, 10/01/42	2,125	2,264,209
Series B, AMT, 6.00%, 10/01/26	590	667,237
Series B, AMT, 6.00%, 10/01/27	775	867,194
Series B, AMT, 6.25%, 10/01/38	310	345,176
Series B, AMT, 6.00%, 10/01/42	410	447,002
County of Miami-Dade Florida, Refunding RB:		
Seaport, Series D, AMT, 6.00%, 10/01/26	735	831,219
Transit System Sales Surtax, 5.00%, 7/01/42	1,165	1,202,921
Water & Sewer System, Series B, 5.25%, 10/01/29	1,890	2,093,742
County of Miami-Dade Florida Aviation, Refunding ARB, Series A, AMT, 5.00%, 10/01/31	2,165	2,218,410
Reedy Creek Improvement District, GO, Series A, 5.25%, 6/01/32	710	774,475
		16,524,943
Hawaii 1.0%		
State of Hawaii Department of Transportation, COP, AMT:		
5.25%, 8/01/25	250	271,975
5.25%, 8/01/26	810	877,992
		1,149,967
Illinois 19.5%		
City of Chicago Illinois, GARB, O Hare International Airport 3rd Lien:		
Series A, 5.75%, 1/01/39	770	815,376
Series C, 6.50%, 1/01/41	3,680	4,192,808
City of Chicago Illinois, Refunding RB, Sales Tax, Series A, 5.25%, 1/01/38	525	544,588
City of Chicago Illinois Transit Authority, RB:		
Federal Transit Administration, Section 5309, Series A (AGC), 6.00%, 6/01/26	1,400	1,529,640
Sales Tax Receipts, 5.25%, 12/01/36	425	442,969
Sales Tax Receipts, 5.25%, 12/01/40	2,355	2,424,896
City of Chicago Illinois Transit Authority, Refunding RB, Federal Transit Administration, Section 5309 (AGM), 5.00%, 6/01/28	3,000	3,118,560
City of Chicago Illinois Wastewater Transmission, RB, 2nd Lien, 5.00%, 1/01/42	1,375	1,382,081
County of Cook Illinois Community College District No. 508, GO, City College of Chicago:		
5.50%, 12/01/38	1,000	1,073,760
5.25%, 12/01/43	2,700	2,787,750
Illinois Finance Authority, RB, Carle Foundation, Series A, 6.00%, 8/15/41	1,555	1,699,584
Railsplitter Tobacco Settlement Authority, RB:		
5.50%, 6/01/23	940	1,051,982
6.00%, 6/01/28	270	299,484
State of Illinois, GO, Various Purposes:		
5.50%, 7/01/33	1,500	1,591,575
5.50%, 7/01/38	280	291,682
		23,246,735
Indiana 4.1%		
Indiana Finance Authority, RB, Ohio River Bridges East End Crossing Project, Series A, AMT, 5.00%, 7/01/40	375	355,823
Indianapolis Local Public Improvement Bond Bank, Refunding RB, Waterworks Project, Series A (AGC), 5.50%, 1/01/38	4,310	4,581,961
		4,937,784

See Notes to Financial Statements.

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Schedule of Investments (continued)

BlackRock MuniYield Investment Quality Fund (MFT)

(Percentages shown are based on Net Assets)

Municipal Bonds	Par (000)	Value
Louisiana 2.8%		
City of New Orleans Louisiana Aviation Board, Refunding GARB, Restructuring (AGC):		
Series A-1, 6.00%, 1/01/23	$ 375	$ 425,325
Series A-2, 6.00%, 1/01/23	160	181,472
Lake Charles Harbor & Terminal District, RB, Series B, AMT, 5.50%, 1/01/29	1,000	1,083,410
Tobacco Settlement Financing Corp., Refunding RB, Asset-Backed, Series A:		
5.50%, 5/15/28	755	786,785
5.50%, 5/15/29	805	836,162
		3,313,154
Massachusetts 1.6%		
Massachusetts HFA, Refunding RB, Series C, AMT, 5.35%, 12/01/42	1,910	1,929,253
Michigan 5.5%		
City of Detroit Michigan, RB, Water Supply System, 2nd Lien, Series B (AGM), 6.25%, 7/01/36	1,800	1,822,590
City of Detroit Michigan, Refunding RB, Sewage Disposal System Senior Lien:		
Series B (AGM), 7.50%, 7/01/33	660	703,435
Series C-1 (AGM), 7.00%, 7/01/27	2,285	2,431,011
Royal Oak Hospital Finance Authority Michigan, Refunding RB, William Beaumont Hospital, Series V, 8.25%, 9/01/39	1,265	1,536,874
		6,493,910
Minnesota 2.9%		
City of Minneapolis Minnesota, Refunding RB, Fairview Health Services, Series B (AGC), 6.50%, 11/15/38	3,000	3,457,200
Mississippi 1.5%		
Mississippi Development Bank, RB, Special Obligation, Jackson Water & Sewer System Project (AGM), 6.88%, 12/01/40	1,190	1,480,907
Mississippi State University Educational Building Corp., Refunding RB, Mississippi State University Improvement Project, 5.25%, 8/01/38	260	284,188
		1,765,095
Nevada 4.4%		
County of Clark Nevada, ARB, Las Vegas-McCarran International Airport, Series A (AGM), 5.25%, 7/01/39	2,375	2,480,331
County of Clark Nevada, GO, Limited Tax, 5.00%, 6/01/38	1,000	1,034,310
County of Clark Nevada Water Reclamation District, GO, Series A, 5.25%, 7/01/34	1,500	1,678,695
		5,193,336
New Jersey 6.5%		
New Jersey EDA, RB:		
The Goethals Bridge Replacement Project, AMT, 5.38%, 1/01/43	1,000	1,006,450
The Goethals Bridge Replacement Project, AMT, 5.00%, 1/01/31	530	536,180
School Facilities Construction (AGC), 6.00%, 12/15/18 (a)	330	406,204
School Facilities Construction (AGC), 6.00%, 12/15/34	670	758,252
New Jersey Health Care Facilities Financing Authority, RB, Virtua Health, Series A (AGC), 5.50%, 7/01/38	1,400	1,465,212
New Jersey Transportation Trust Fund Authority, RB, Transportation System:		
Series A, 5.50%, 6/15/41	1,195	1,270,739
Series AA, 5.50%, 6/15/39	1,600	1,739,024
Municipal Bonds	**Par (000)**	**Value**
New Jersey (concluded)		
Rutgers - The State University of New Jersey, Refunding RB, Series J, 5.00%, 5/01/32	$ 545	$ 603,190
		7,785,251
New York 7.4%		

City of New York New York Municipal Water Finance Authority, Refunding RB, Water & Sewer System, 2nd General Resolution, Series FF-2, 5.50%, 6/15/40	1,545	1,663,702
City of New York New York Transitional Finance Authority Building Aid, BARB, Fiscal 2009, Series S-4 (AGC), 5.50%, 1/15/29	2,000	2,293,680
New York State Thruway Authority, Refunding RB, General, Series G (AGM), 5.00%, 1/01/32	2,000	2,081,680
Port Authority of New York & New Jersey, Refunding ARB, Consolidated, 166th Series, 5.25%, 7/15/36	2,500	2,745,325
		8,784,387
Ohio 1.9%		
Ohio State Turnpike Commission, RB, Junior Lien, Infrastructure Projects, Series A-1:		
5.25%, 2/15/30	585	646,074
5.25%, 2/15/31	1,500	1,647,000
		2,293,074
Pennsylvania 2.7%		
Pennsylvania Higher Educational Facilities Authority, RB, Temple University, 1st Series, 5.00%, 4/01/42	1,000	1,037,950
Pennsylvania Turnpike Commission, RB, Sub-Series A, 6.00%, 12/01/41	2,000	2,170,120
		3,208,070
South Carolina 5.0%		
County of Charleston South Carolina, RB, Special Source, Series 2013, 5.25%, 12/01/38	1,470	1,610,576
County of Charleston South Carolina Airport District, ARB, Series A, AMT:		
5.50%, 7/01/26	1,810	2,008,521
6.00%, 7/01/38	1,155	1,261,710
5.50%, 7/01/41	1,000	1,057,150
		5,937,957
Texas 19.5%		
Austin Community College District Public Facility Corp., RB, Educational Facilities Project, Round Rock Campus, 5.25%, 8/01/33	2,250	2,439,990
City of Beaumont Texas, GO, Certificates of Obligation, 5.25%, 3/01/37	930	1,022,981
City of Houston Texas Utility System, Refunding RB, Combined 1st Lien, Series A (AGC):		
6.00%, 11/15/35	2,700	3,086,640
6.00%, 11/15/36	2,055	2,355,749
5.38%, 11/15/38	1,000	1,076,750
County of Tarrant Texas Cultural Education Facilities Finance Corp., Refunding RB, Christus Health, Series A (AGC), 6.50%, 7/01/37	1,100	1,215,918
Dallas-Fort Worth International Airport, ARB, Joint Improvement, Series H, AMT, 5.00%, 11/01/37	980	985,557
Dallas-Fort Worth International Airport, Refunding RB, Joint Revenue, Series E, 5.50%, 11/01/27	2,500	2,733,900
Frisco Texas ISD, GO, School Building (AGC), 5.50%, 8/15/41	1,210	1,401,265
Lower Colorado River Authority, Refunding RB, 5.50%, 5/15/33	730	797,036
North Texas Tollway Authority, RB, Special Projects, Series A, 5.50%, 9/01/41	2,750	3,000,525

See Notes to Financial Statements.

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Schedule of Investments (continued)

BlackRock MuniYield Investment Quality Fund (MFT)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
Texas (concluded)		
North Texas Tollway Authority, Refunding RB, 1st Tier:		
(AGM), 6.00%, 1/01/43	$ 1,000	$ 1,093,230
Series K-1 (AGC), 5.75%, 1/01/38	1,400	1,550,430
Red River Education Financing Corp., RB, Texas Christian University Project, 5.25%, 3/15/38	420	460,114
		23,220,085
Virginia 1.4%		
City of Lexington Virginia IDA, RB, Washington & Lee University, 5.00%, 1/01/43	380	404,229
Virginia Public School Authority, RB, Fluvanna County School Financing, 6.50%, 12/01/18 (b)	1,000	1,255,880
		1,660,109
Washington 1.6%		
City of Seattle Washington Municipal Light & Power, Refunding RB, Series A, 5.25%, 2/01/36	1,000	1,089,030
State of Washington, GO, Various Purposes, Series B, 5.25%, 2/01/36	725	792,345
Total Municipal Bonds in Washington		1,881,375
Total Municipal Bonds 131.4%		156,308,829

Municipal Bonds Transferred to Tender Option Bond Trusts (c)	**Par (000)**	**Value**
Alabama 1.3%		
City of Mobile Alabama Board of Water & Sewer Commissioners, RB (NPFGC), 5.00%, 1/01/31	1,500	1,568,580
District of Columbia 0.7%		
District of Columbia Water & Sewer Authority, Refunding RB, Senior Lien, Series A, 6.00%, 10/01/35 (d)	760	854,235
Florida 2.6%		
County of Hillsborough Florida Aviation Authority, ARB, Tempa International Airport, Series A, AMT (AGC), 5.50%, 10/01/38	2,499	2,712,478
County of Lee Florida Housing Finance Authority, RB, Multi-County Program, Series A-2, AMT (Ginnie Mae), 6.00%, 9/01/40	315	328,595
		3,041,073
Kentucky 1.0%		
Kentucky State Property & Building Commission, Refunding RB, Project No. 93 (AGC), 5.25%, 2/01/27	1,002	1,125,616
Nevada 7.7%		
County of Clark Nevada Water Reclamation District, GO:		
Limited Tax, 6.00%, 7/01/38	2,010	2,287,521
Series B, 5.50%, 7/01/29	1,994	2,314,428
Las Vegas Valley Water District, GO, Refunding, Series C, 5.00%, 6/01/28	4,200	4,601,352
		9,203,301

Municipal Bonds Transferred to Tender Option Bond Trusts (c)	**Par (000)**	**Value**
New Jersey 2.3%		
New Jersey Housing & Mortgage Finance Agency, RB, S/F Housing, Series CC, 5.25%, 10/01/29	$ 1,610	$ 1,692,723
New Jersey Transportation Trust Fund Authority, RB, Transportation System, Series B, 5.25%, 6/15/36 (d)	1,000	1,063,551
		2,756,274
New York 12.7%		
City of New York New York Municipal Water Finance Authority, RB, Water & Sewer System, 2nd General Resolution, Series FF-2, 5.50%, 6/15/40	1,095	1,178,957
City of New York New York Municipal Water Finance Authority, Refunding RB, Water & Sewer System, 2nd General Resolution, Series BB, 5.25%, 6/15/44	2,999	3,183,060

City of New York New York Transitional Finance Authority, BARB, Fiscal 2009, Series S-3, 5.25%, 1/15/39	1,000	1,076,985
Hudson Yards Infrastructure Corp., RB, Fiscal 2012, Series A, 5.75%, 2/15/47 (d)	1,000	1,080,502
New York Liberty Development Corp., RB, 1 World Trade Center Port Authority Consolidated Bonds, 5.25%, 12/15/43	3,000	3,190,530
New York Liberty Development Corp., Refunding RB, 4 World Trade Center Project, 5.75%, 11/15/51 (d)	1,770	1,909,051
New York State Dormitory Authority, ERB, Personal Income Tax, Series B, 5.25%, 3/15/38	3,250	3,470,447
		15,089,532
Texas 2.4%		
City of San Antonio Texas Public Service Board, Refunding RB, Series A, 5.25%, 2/01/31 (d)	2,609	2,903,380
Utah 0.9%		
City of Riverton Utah, RB, IHC Health Services, Inc., 5.00%, 8/15/41	1,004	1,036,680
Total Municipal Bonds Transferred to Tender Option Bond Trusts 31.6%		37,578,671
Total Long-Term Investments (Cost $183,307,101) 163.0%		193,887,500

Short-Term Securities	**Shares**	
FFI Institutional Tax-Exempt Fund, 0.03% (e)(f)	761,559	761,559
Total Short-Term Securities (Cost $761,559) 0.6%		761,559
Total Investments (Cost $184,068,660) 163.6%		194,649,059
Other Assets Less Liabilities 1.0%		1,167,176
Liability for TOB Trust Certificates, Including Interest Expense and Fees Payable (17.1)%		(20,338,717)
VMTP Shares, at Liquidation Value (47.5)%		(56,500,000)
Net Assets Applicable to Common Shares 100.0%		$ 118,977,518

Notes to Schedule of Investments

(a) When-issued security. Unsettled when-issued transactions were as follows:

Counterparty	**Value**	**Unrealized Appreciation**
Citigroup Global Markets, Inc.	$ 1,069,900	$ 68,669

(b) US government securities, held in escrow, are used to pay interest on this security, as well as to retire the bond in full at the date indicated, typically at a premium to par.

(c) Represent bonds transferred to a TOB. In exchange for which the Fund acquired residual interest certificates. These bonds serve as collateral in a financing transaction. See Note 3 of the Notes to Financial Statements for details of municipal bonds transferred to TOBs.

See Notes to Financial Statements.

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Schedule of Investments (concluded)

BlackRock MuniYield Investment Quality Fund (MFT)

(d) All or a portion of security is subject to a recourse agreement, which may require the Fund to pay the liquidity provider in the event there is a shortfall between the TOB trust certificates and proceeds received from the sale of the security contributed to the TOB trust. In the case of a shortfall, the aggregate maximum potential amount the Fund could ultimately be required to pay under the agreements, which expire from October 1, 2016 to November 15, 2019 is $4,647,054.

(e) Investments in issuers considered to be an affiliate of the Fund during the six months ended January 31, 2014, for purposes of Section 2(a)(3) of the 1940 Act, were as follows:

Affiliate	**Shares Held at July 31, 2013**	**Net Activity**	**Shares Held at January 31, 2014**	**Income**
FFI Institutional Tax-Exempt Fund	8,162,312	(7,400,753)	761,559	$ 311

(f) Represents the current yield as of report date.

Financial futures contracts outstanding as of January 31, 2014 were as follows:

Contracts Sold	**Issue**	**Exchange**	**Expiration**	**Notional Value**	**Unrealized Depreciation**
(110)	10-Year US Treasury Note	Chicago Board of Trade	March 2014	$ 13,832,500	$ (58,458)

Fair Value Measurements Various inputs are used in determining the fair value of investments and derivative financial instruments. These inputs to valuation techniques are categorized into a disclosure hierarchy consisting of three broad levels for financial statement purposes as follows:

Level 1 unadjusted price quotations in active markets/exchanges for identical assets or liabilities that the Fund has the ability to access

Level 2 other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates) or other market-corroborated inputs)

Level 3 unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including the Fund s own assumptions used in determining the fair value of investments and derivative financial instruments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. In accordance with the Fund s policy, transfers between different levels of the fair value disclosure hierarchy are deemed to have occurred as of the beginning of the reporting period. The categorization of a value determined for investments and derivative financial instruments is based on the pricing transparency of the investment and derivative financial instrument and is not necessarily an indication of the risks associated with investing in those securities. For information about the Fund s policy regarding valuation of investments and derivative financial instruments, please refer to Note 2 of the Notes to Financial Statements.

The following tables summarize the Fund s investments and derivative financial instruments categorized in the disclosure hierarchy as of January 31, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Long-Term Investments[1]		$ 193,887,500		$ 193,887,500
Short-Term Securities	$ 761,559			761,559
Total	$ 761,559	$ 193,887,500		$ 194,649,059

1 See above Schedule of Investments for values in each state or political subdivision.

	Level 1	Level 2	Level 3	Total
Derivative Financial Instruments[2]				
Liabilities:				
Interest rate contracts	$ (58,458)			$ (58,458)

2 Derivative financial instruments are financial futures contracts, which are valued at the unrealized appreciation/depreciation on the instrument.

The carrying amount for certain of the Fund s assets and/or liabilities approximates fair value for financial statement purposes. As of January 31, 2014, such assets and/or liabilities are categorized within the disclosure hierarchy as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash pledged for financial futures contracts	$ 169,000			$ 169,000
Liabilities:				
TOB trust certificates		$ (20,333,757)		(20,333,757)
VMTP Shares		(56,500,000)		(56,500,000)
Total	$ 169,000	$ (76,833,757)		$ (76,664,757)

There were no transfers between levels during the six months ended January 31, 2014.

See Notes to Financial Statements.

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Schedule of Investments January 31, 2014 (Unaudited)

BlackRock MuniYield Michigan Quality Fund, Inc. (MIY)

(Percentages shown are based on Net Assets)

Municipal Bonds	**Par (000)**	**Value**
Michigan 141.6%		
Corporate 5.1%		
County of Monroe EDC Michigan, Refunding RB, Detroit Edison Co. Project, Series AA (NPFGC), 6.95%, 9/01/22	$ 10,695	$ 13,504,791
County/City/Special District/School District 33.8%		
Adrian City School District, GO, (AGM) (a):		
5.00%, 5/01/14	2,000	2,024,200
5.00%, 5/01/14	1,600	1,619,360
Anchor Bay School District, GO, Refunding (Q-SBLF):		
4.13%, 5/01/25	1,275	1,337,271
4.25%, 5/01/26	1,800	1,886,526
4.38%, 5/01/27	960	1,003,738
4.50%, 5/01/29	900	936,657
Bay City School District Michigan, GO, School Building & Site (AGM) (Q-SBLF), 5.00%, 5/01/36	2,800	2,910,992
Birmingham City School District Michigan, GO, School Building & Site (AGM), 5.00%, 11/01/14 (a)	1,000	1,036,130
Charter Township of Canton Michigan, GO, Capital Improvement (AGM):		
5.00%, 4/01/25	1,840	2,019,731
5.00%, 4/01/26	2,000	2,203,280
5.00%, 4/01/27	500	537,780
Chippewa Valley Schools, GO, Refunding, Unlimited Tax (Q-SBLF), 5.00%, 5/01/32	1,970	2,113,061
City of Oak Park Michigan, GO, Street Improvement (NPFGC), 5.00%, 5/01/30	500	523,880
Comstock Park Public Schools, GO, School Building & Site, Series B (Q-SBLF):		
5.50%, 5/01/36	750	805,013
5.50%, 5/01/41	1,355	1,438,793
County of Genesee Michigan, GO, Refunding, Series A (NPFGC), 5.00%, 5/01/19	600	620,940
Dearborn Brownfield Redevelopment Authority, GO, Limited Tax, Redevelopment, Series A (AGC), 5.50%, 5/01/39	3,300	3,476,187
Dearborn School District, GO, Series A (Q-SBLF) (b):		
5.00%, 5/01/32	930	984,377
5.00%, 5/01/33	990	1,043,044
5.00%, 5/01/34		