MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone, and welcome to HealthSouth's Third Quarter 2009 Earnings Conference Call. At this time, I would like to inform all participants that your lines will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period. In order to accommodate all callers, please limit yourself to one question and one follow-up question.

Today's conference call is being recorded. Your participation implies consent to our recording this call. If you have any objections, you may disconnect at this time.

I would now like to turn the call over to Ms. Mary Ann Arico, HealthSouth's Senior Vice President of Investor Relations and Corporate Communications. Please go ahead.

Mary Ann Arico, Senior Vice President, Investor Relations and Corporate Communications

Thank you, Julianne, and good morning everyone. Thank you for joining us today for HealthSouth third quarter 2009 earnings call. With me today on the call in Birmingham are Jay Grinney, President and Chief Executive Officer; John Workman, Chief Financial Officer; Mark Tarr, Executive Vice President of Operations; John Whittington, our General Counsel; Andy Price, Chief Accounting Officer; Ed Fay, Senior Vice President and Treasurer; and Julie Duck, Vice President of Operations.

Before we begin today, if you do not already have a copy, the press release, financial statements and the related 8-K filings with the SEC are available on our website at www.healthsouth.com. In addition to the required information, we have also provided a set of slides, which are available on our website. The first 16 slides will be referred to during the call. The remaining 20 slides include supplemental information, including GAAP reconciliation for Q3.

Moving to slide one, the Safe Harbor. During the call, we will make forward-looking statements, which are subject to risks and uncertainties, many of which are beyond our control. Certain risks, uncertainties and other factors that could cause actual results to differ materially from management projections, forecasts, estimates and expectations are discussed in the Company's Form 10-K for 2008 and its quarterly and other SEC filings, including the Form 10-Q for Q3 2009 scheduled to be filed today. We encourage you to read them.

You are cautioned not to place undue reliance on the estimates, projections, guidance and other forward-looking information presented. Statements made throughout the presentation are based on current estimates of future events, and speak only of today. The Company does not undertake a duty to update or correct these forward-looking statements.

Our slide presentation and discussion on the call will include certain non-GAAP financial measures. For such measures, reconciliation to the most directly comparable GAAP measure is available at the end of the slide presentation or at the end of the related press release, both of which are available on our website or as part of the Form 8-K filed last night with the SEC.

And with that, I will turn the call over to Jay.

Jay Grinney, President and Chief Executive Officer

Great. Thank you, Mary Ann, and good morning, everyone. We have a lot to cover this morning. But before we begin, I'd like to recognize and thank John Workman for his exceptional service to HealthSouth during these past five years.

After John and I talked about the opportunity at Omnicare and his departure from HealthSouth, I went back to look at the notes I made when I first interviewed him in June of 2004. Intense, bright, hands-on, likes a challenge were some of the comments I jotted in the margins of his résumé. Having now worked with John for over five years, I'd also like to add these words and phrases to that list: leader, a man of integrity, hard worker and all around great guy. John has been a trusted partner, colleague, and friend and all of us at HealthSouth wish him the very best as he assumes his new responsibilities at Omnicare.

And although transitions are never easy, John definitely is going out on a very strong note. Same-store discharges increased 5.3% in the quarter compared to the third quarter of 2008, despite some very tough comps. As a reminder, we saw our same-store discharges grow by 8.1% in the third quarter of last year compared to Q3 of '07. Being able to grow 5.3% on top of that benchmark is extremely gratifying and underscores the dedication and commitment our employees have to their patients.

Not surprisingly, pricing in the quarter was essentially flat. As most everybody knows, the third quarter marked the end of the Medicare pricing rollback that went into effect in April of last year.

With net revenue per discharge basically unchanged from last year, our inpatient net revenues increased 4.8%, in line with our volumes. With 11 fewer outpatient clinics, our outpatient net revenues declined $2.6 million compared to the third quarter of 2008, which when combined with our inpatient revenue increase contributed to an overall increase in consolidated net operating revenues of 3.8%.

Andy Price will do a walkthrough of our expenses in a moment. But suffice it to say, we also were very pleased with how well our hospitals managed their expenses in the quarter and their success was reflected across all key expense categories. Strong volumes and disciplined expense management generated $96.4 million in adjusted consolidated EBITDA in the quarter, up 17 million or just over 21% compared to the third quarter of '08. Year-to-date, our adjusted consolidated EBITDA has increased $35 million or 13.7% compared to the first nine months of 2008.

Improved adjusted consolidated EBITDA and lower interest expense allowed the company to earn $0.38 per diluted share of adjusted income from continuing operations, after adjusting for government class action and related settlements and non-recurring items such as the losses on the interest rate swaps. This compares favorably to the $0.15 per diluted share in the third quarter of 2008.

Another important indicator of our continued strong performance is the free cash flow we've been able to generate. As outlined on page 11 of the supplemental slides, cash from continuing operations was $135.5 million in the quarter. After deducting $9.5 million of maintenance CapEx, a little over $11 million in swap payments, $6.5 million of preferred dividends and about $7 million going to our joint venture partners and some non-recurring items, our adjusted free cash flow for the quarter was $98.6 million which compared to $39.6 million in the third quarter of last year. Year-to-date, we've generated $159.1 million in adjusted free cash flow compared to 55.4 million during the first nine months of 2008.

Finally, we realized an important milestone in the quarter. Through increased adjusted consolidated EBITDA and $117 million in year-to-date debt repayments, we were able to reduce our leverage ratio on a trailing 12-month basis to 4.5 times, which we achieved more than a year ahead of schedule. While this clearly is not our ultimate leverage goal, we are very pleased with this accomplishment and have renewed confidence in our ability to get below four-point times well before the end of 2012.

With that, I'm going to turn it over to John Workman one last time. John will then introduce Andy Price and Ed Fay for their comments.

John L. Workman, Executive Vice President and Chief Financial Officer

Jay, thank you. Thank you for the kind comments about me.

You're all well aware of my announcement. It has been a great pleasure working with Jay and the rest of this great management team over the last five years. The company is well positioned for future growth and is in stark contrast to the four divisions and mess we inherited five years ago. My departure is no reflection on HealthSouth, which is obviously a great company, but is just an opportunity for me to use my background and hopefully add value at Omnicare as well as being closer geographically to our family. There is great continuity in Andy Price and Ed Fay, as well as others in the finance function. And though the time for leaving is never perfect, this comes close.

Andy Price has been named Interim Chief Accounting Officer. Andy has also been here since 2004. We identified Andy early on as a strong performer and he was promoted to a Senior Vice President in 2005 and has been instrumental in leading the accounting area through the reconstruction to a normalization to now a best practices approach. Andy brings with him a solid background in post-acute as well as experience as a senior manager in an international public accounting firm. Andy has participated in our Board Audit Committee meetings and is well known to the Audit Committee. This will facilitate the transition.

Ed Fay, HealthSouth's Senior Vice President and Treasurer, was recruited to the company over a year ago and brings tremendous depth with his prior experience at JP Morgan, Wachovia, Standard Chartered, and at Regions Bank here in Birmingham before joining HealthSouth. Ed has been a key part of HealthSouth's derivative strategy and the most recent amendment and extension of the company's credit agreement. Ed regularly interacts with HealthSouth's Board Finance Committee, which will also ease the transition.

Andy is going to cover the income statement areas, and Ed will cover the balance sheet including debt-related items as well as cash flows. Before I turn it over to them, I want to personally thank all of you for your support of HealthSouth.

Andy Price, Senior Vice President and Interim Chief Accounting Officer

Thank you, John. I will be referencing the slides we filed on Form 8-K in my comments today. Beginning with revenues, which can be found on slide five, our inpatient revenues increased by 4.8% over last year's quarter to 431.3 million. As Jay mentioned, discharges on a same-store basis increased 5.3%, while pricing as expressed on a per-discharge basis remained flat to prior year.

Additionally, our length of stay during the quarter was four-tenths of a day shorter than the same quarter a year ago. Despite the shorter length of stay, our occupancy improved to 66.5% from 65.6% a year ago. Sequentially, occupancy declined from 68.8% in the second quarter of 2009 due to the inclusion of our 40-bed Mesa hospital and licensed beds during Q3 of 2009. These revenue and operational statistics can be found on slide 26.

Outpatient and other revenue declined 5.9% from the same quarter a year ago, resulting from the closure of 11 outpatient satellites in September of 2008.

Next, I wanted to provide some details on our operating expenses for the quarter, which could be found on slide six. Stated as a percentage of revenue, salaries and benefits were 49.8% for the quarter, a decline of 210 basis points from the same period a year ago and a slight increase of 40 basis points from the second quarter of 2009. As we mentioned to you in 2008, we made several changes to our benefit plans, including reducing certain aspects of our paid time-off program.

These refinements have contributed to the salary and benefit improvement from the same quarter of a year ago.

In addition, as a result of our recruiting and retention efforts, we saw significant declines in the use of contract labor during the quarter, which also contributed to the overall decline in cost of labor in our hospitals. We continue to see improvement in labor productivity, expressed as employee per occupied bed or EPOB, which improved to 3.58 during the quarter as compared to 3.69 a year ago, a 3% improvement. These positive trends in salaries and benefits reflect our continued focus on providing high quality patient care, but on a cost-effective basis.

I should also note that on October 1 we provided a merit increase of approximately 2.3% to our employees except for senior management and that our new Mesa hospital will have start-up costs, including salary and operating expenses, during the fourth quarter with proportionally lower revenues.

Finally, in looking at hospital-related expenses, which include operating cost, supplies, occupancy and bad debts – as a percentage of revenue, these decreased by 80 basis points compared to a year ago and 20 basis points sequentially from the second quarter of 2009.

Turning to the provision for doubtful accounts, which returned to 1.7% as a percent of revenues, which was what it was in the first quarter of this year. As we have mentioned on prior calls, our bad debt expense fluctuated in the second quarter of 2009 due to additional provisions for pending Medicare claims that were denied by one of our fiscal intermediaries referred to as ADRs. As a reminder, we provide for these claims as they age, which can take up to 18 months to adjudicate through the administrative process.

During the third quarter, the intermediary suspended new ADRs, which contributed to the sequential decline in our provision for bad debts as compared to the second quarter. We continue to work through the existing ADR inventory and have thus far enjoyed a strong success rate for those claims that have completed the appeals process.

General and administrative expenses, excluding 123-R cost, were 4.8% of revenue during the quarter, a 20 basis point improvement from the prior year. During Q3, we recorded an impairment charge of $4 million, which represents a write-down of property and equipment associated with one of our inpatient rehab hospitals to its estimated fair value. The charge resulted from our recurring assessment of the carrying value of our property and equipment, which occurs on a quarterly basis.

Government class action and related settlements includes our mark-to-market adjustment for the five million common shares and 8.2 million warrants, which we agreed to contribute as part of the Securities' litigation settlement. The increase in the company's stock price from Q2 to Q3 resulted in a charge of 8.2 million during the quarter. Q3 will be the final quarter for this mark-to-market adjustment as the common shares and warrants were distributed at the end of the quarter. With the issuance of the common shares and warrants in Q3, we have removed the associated Securities' litigation liability from our balance sheet along with the insurance refund receivable. The net impact of these adjustments is an approximate $116 million increase in the company's equity balance as of September 30, 2009.

Professional fees declined slightly compared to prior year. These costs generally relate to amounts spent for pursuit of the derivative claims against E&Y and former officers and directors and to matters prior to 2003.

Interest expense declined 10.8 million quarter-over-quarter due to a decline in LIBOR rates and reductions in debt levels. With the three-month LIBOR averaging approximately 42 basis points compared to 291 basis points a year ago, we are seeing favorable interest expense due to the lower rate. The decline in LIBOR resulted in an increase in payments under our 5.22% fixed

payment swap agreement, which covers 956 million of notional amount. As this instrument is not accounted for as a hedge, these payments are excluded from adjusted EPS, but are reflected on the cash flow statement and in our presentation of free cash flow.

Ed will provide a more detailed discussion of the company's debt structure and impact of the swap agreements later in the presentation.

We had a 1.7 billion benefit in income taxes this quarter. The majority of this benefit relates to state income tax refunds expected from amended returns being filed for 2004, offset by other provisions.

Turning to adjusted consolidated EBITDA, which was 96.4 million for the third quarter compared to 79.4 million for the third quarter of 2008, a 21.4% increase. We attribute the strong improvement in 2009 over 2008 to strong volume growth and improved labor productivity, allowing us to deliver high quality patient care on a cost-effective basis and continued management of expenses including G&A.

In discussing net income and earnings per share in the quarter, we believe there are some adjustments that should be considered, items either non-cash or non-recurring when considering income from continuing operations. The adjustments to EPS are similar in nature to adjusted consolidated EBITDA, but are not identical. The adjustments to EPS generally relate to the professional fees line, mark-to-market or fair value adjustments to liabilities, and the gain on early extinguishment of debt. We have also adjusted to a normalized income tax expense to reflect a run rate for this element, exclusive of refunds associated with amended tax returns.

Considering these items, adjusted income from continuing operations is 39.1 million, representing a $24 million improvement in income and adjusted EPS is $0.38 per diluted share, representing a $0.23 per share improvement in EPS over the third quarter of 2008.

The decline in LIBOR rates from the third quarter of 2008 represents approximately 7.1 million of earnings or $0.07 per share of the $0.23 increase in EPS. On a year-to-date basis, the change in interest rates represents $22.9 million or $0.22 per share of this year-over-year increase in adjusted EPS. Excluding the impact of the decline in LIBOR rates, the year-over-year increase in adjusted EPS would have been $0.16 per share for the quarter and $0.44 per share for the nine month period.

The fourth quarter EPS will reflect a higher share count as a result of the approximately 5 million shares distributed at the end of Q3 related to our securities litigation settlement. Note that the 8.2 million warrants issued in September had a strike price of $41.40 and will not initially be diluted to earnings.

With that, I will turn the presentation over to Ed.

Ed Fay, Senior Vice President and Treasurer

Thanks Andy. I am going to begin with a discussion of free cash flow and then move to some balance sheet issues, the amendment to our credit agreement and finally liquidity.

Turning now to free cash flow, found on slide 11, we analyzed our free cash flow by beginning with cash providing by operating activities of continuing operations. From that number, we make certain adjustments for items which are found in the investing and financing activity section of the statement of cash flow; then, of course, we adjust for certain non-recurring items.

On the third quarter, we produced free cash flow of $98.6 million. This result was a product of strong operating performance and favorable working capital trends. Once contributed to the

working capital improvement, we are trying to reduce from the fourth quarter when our semi-annual bond interest payments of approximately $39 million are made. Also, annual insurance payments of approximately $10 million are typically made late in the fourth quarter.

You will see on this slide, the maintenance capital expenditures are $9.5 million for the quarter, which include funds expense on refresh programs in our hospitals. We also invested some of the $98.6 million of free cash flow and $10.5 million of discretionary capital expenditures, which are not of a maintenance nature. These primarily represent payments towards de novo hospital construction in Mesa, Arizona and Loudoun County, Virginia as well as cost for bed expansions and some corporate expenditures.

On the year, we have spent $30 million on discretionary projects. But we have recently entered into a sale leaseback arrangement in the new Mesa hospital. This will add $15.5 million of incremental indebtedness to our balance sheet in the fourth quarter.

Turning now to the balance sheet, available cash was $117.3 million at September 30, 2009. This increase of $68 million during the quarter is attributable to the strong operating results and favorable working capital trends I mentioned earlier and to the fact that we did not deploy cash towards discretionary debt reduction on the quarter.

Turning to slide 12, the reduction of long-term debt did continue albeit at a reduced pace and we finished the quarter with $1.697 billion balance. Debt has been reduced $117 million since year-end 2008. Our leverage ratio has declined eight-tenths of a turn from year-end, and we are now at 4.5 times based on our trailing four quarters of adjusted consolidated EBITDA. Achieving a 4.5 times leverage ratio was a goal we set with a delivery date of year-end 2010. Having achieved that goal five quarters ahead of schedule, we now believe our longer-term goal of 3.5 times to 4 times by the end of 2012 is likely to be achieved earlier.

While debt reduction remains a priority for the company, we took other steps recently to improve the overall quality of our capital structure by amending and extending our credit agreement. First of all, we pushed out the maturity of approximately $300 million of our term loan up to 2.5 years through September 2015. Please refer to the Appendix 528 to see how our maturity profile has been changed by this extension. Also on this extended piece, we will be paying an increased spread of 150 basis points.

In addition to smoothing out our maturity profile, the amendment permits the issuance of senior secured or unsecured notes to reduce our bank debt. Senior secured notes can also be used to reduce availability under the $300 million loan accordion feature that was already in the credit agreement. Other amendments within the agreement will provide us further flexibility to help improve the capital structure and grow the company.

While speaking of our credit agreement, I want to mention it does contain maintenance covenants, mainly a leverage ratio and an interest coverage ratio. We were in compliance with these ratios as of the end of the third quarter of 2009.

Regarding our interest rate swap positions, there was no change on the quarter. Last quarter you will recall we bought out $100 million notional of our mark-to-market swap. This and the fact that it is approaching maturity have helped to reduce some of the income statement noise this position creates. In the future we will make every effort to transact only in derivatives as a chief hedge accounting.

Finally, there is a liquidity schedule on slide 13. Based on our available cash and un-drawn revolver, we had $517 million of liquidity at the end of the third quarter. This was an improvement of $177 million over our position at year-end 2008. Please note that we have not had to make use of our revolver for cash or letters of credit since February of this year.

With that, let me turn it back over to Jay.

Jay Grinney, President and Chief Executive Officer

Great. Thanks guys. As we launch our search for a new CFO, the company will be in excellent hands with Andy and Ed. Both bring years of experience in their areas of responsibility and have worked closely with John, members of our Board of Directors and in the case of Andy with our external auditors. They also have top notch talent in their respective areas of responsibility, which will ensure a seamless transition.

Before taking questions, we'll address the status of the E&Y arbitration and our outlook for the remainder of the year and then we'll provide some preliminary thoughts on 2010. John Whittington, our General Counsel will provide the E&Y update.

John P. Whittington, Executive Vice President and General Counsel

Thanks Jay. Last quarter I reported that we were in the final stages of selecting an arbitration panel. I am pleased to announce today that the three person panel was seated on September, the 29th, and the arbitration process has begun. As we proceed with this process, we will follow the rules of and the process dictated by the American Arbitration Association (AAA). Those rules as well as the specific orders of the arbitration panel required the process be confidential. And accordingly, we will not be allowed to provide you with any updates until the process is complete.

I can tell you however, that there will be numerous procedural and pre-trail matters that will have to be resolved before the actual trial can commence. We still believe the trial will take 6 to 8 weeks once it begins.

I will also remind you it is a three party process involving the AAA, E&Y and HealthSouth and that we do not unilaterally control the process, nor the timing of the process. The arbitration will proceed based on schedules established by the panel and it is now clear that the final resolution of this arbitration will be a 2010 event and not a 2009 event as we had originally anticipated.

We are pleased that the process is underway, we remain confident in our claims and we will continue to pursue them aggressively.

Jay Grinney, President and Chief Executive Officer

Thank you, John. As noted in our press release, we're raising our full year adjusted consolidated EBITDA and adjusted diluted earnings per share guidance. Our adjusted consolidated EBITDA range is being raised of 375 to $380 million, up from the previous range of 354 to $362 million. Our adjusted diluted earnings per share is being increased to a new range of $1.45 to $1.50 per share, up from the previous range of $1.15 to $1.25 per share, which represents a significant increase from the $0.75 per share we earned in 2008.

You'll recall, our adjusted consolidated EBITDA was 87.5 million in the fourth quarter of last year, which included approximately $6 million of favorable non-comparable items. Normalizing for these one-time items, our adjusted consolidated EBITDA would have been 81.5 million. Given our year-to-date performance, our revised guidance implies a projected fourth quarter adjusted consolidated EBITDA of between 85.9 and $90.9 million, which represents a 5 to 11% increase over the Q4 '08 normalized number.

As it has been the case all year, volume will determine fourth quarter performance. Same-store discharge growth in the fourth quarter 2008 was 9.7% compared to Q4 of 2007. This obviously creates an even more challenging comp for us than our third quarter comp. While we are pleased with our discharge growth through October and with the start to November, we need to see sustained performance through the remainder of the quarter to achieve the high-end of these revised rangers.

Other factors influencing the quarter will include 2.5% medicare market basket increase and the 2.3% merit increase for all of non-senior management personnel both of which were effective October 1st.

While our 2010 budgets haven't been locked down and approved by our broad, we have enough visibility into the numbers that we remain confident in our stated growth objectives; namely, that we will be able to grow volumes in the 4% range, generate mid- to high-single digit adjusted consolidated EBITDA growth and drive high teens adjusted EPS growth.

As we've previously stated, our continued volume growth will occur as a result of our standardized sales and marketing efforts, the addition of beds to those hospitals that are at capacity and the full year impact of de-novo hospitals. Our ability to meet or exceed these EBITDA and EPS targets will be predicated on hitting our volume objectives, keeping a good portion of our medicare market basket update, continuing to manage our expenses in a disciplined manner and having LIBOR remain in that 25 to 50 basis point range. Our pricing assumption assumes some kind of healthcare reform will be enacted and that hospitals will have to help pay for this reform through a market basket reduction.

In conclusion, we've had a solid year thus far and remain confident in both the near term and longer term business outlook for HealthSouth. We have a sound well thought-out business plan and have demonstrated we can execute it, producing solid results. And we have a strong experienced management team with considerable bench strength that will continue to work as a team to bring value to our shareholders.

With that, I'm going to ask the operator to please open up the lines for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Your first question is from the line of Pito Chickering with Deutsche Bank.

<Q – Pito Chickering>: Hi, good morning guys.

<A>: Good morning Pito.

<Q – Pito Chickering>: First of all, John I want you to thank you for all your help and best of luck at Omnicare, you'll be missed. Question here for you guys: as margins continue to improve, you are driven by salaries and benefits and other operating expenses, I always expected that sort of as a percentage of revenue having fairly content throughout 2009. Can you talk about how your current staffing process will work in the fourth quarter and first quarter, when you have higher seasonal volumes and what is your target in place for occupied bed for these quarters?

<A – Jay Grinney>: Well, what we don't do is provide prospective targets on productivity metrics. Clearly, as I said before, the ability to continue to see volumes at that 4 plus percent range in the quarter is going to help us achieve solid improvements in our productivity. If you look at it on a net revenue basis, however, remember that we did put in merit increases for all employees about 2.3% on October 1. So, as I said, we don't prospectively go out and well here is our target and this is what we're going to try to get to and we're really not going to get go down that road. I think the thing to take away from the third quarter and the second quarter, frankly, is that all year we've been able to mange the volumes levels. The first quarter is typically the busiest for us and we see slight reductions in the second and third quarter and yet we've been able to effectively manage our labor through those different volume seasons and we full expect that we will to do that into fourth quarter.

<Q – Philip Chickering>: Okay. So I guess, I was thinking a slightly different way and thinking about again fourth and first quarter, it seemed as though from year-over-year perspective, you haven't really increased your staffing levels that much despite of these volume gains, I mean obviously that'll -- sort of key powering, but do you believe that sort of leverage you've seen in '09, do you continue seeing that in 2010?

<A – Jay Grinney>: I'm sorry you kind of...

<Q – Pito Chickering>: Yeah. So -- I guess as...

<A – Jay Grinney>: Peter, I'm sorry I couldn't hear the question.

<Q – Pito Chickering>: Okay, no problem. As a different way, if I look at the number of full-time employees, you guys had looking at third quarter '08 versus third quarter of '09. It's relatively -- it's actually down year-over-year despite the volume growth, which obviously shows in your employees for occupied bed. Those trends you're having pretty solid as you guys ramp up as you see in the volumes, is that any reason why that should not continue or that do you see yourselves as clearly well staff versus your volume next expectations at this point?

<A – Jay Grinney>: Well, first of all, we definitely believe that we are very well staffed. Our first focus is always on quality patient care. And as you can see in the first of the supplemental slides, we really do have a pretty good track record of being able to outperform the market with respect to some of the quality metrics. So we certainly have – in hospitals there are going to be vacancies that we're recruiting for, but we feel like we are adequately staffed.

The big change really has been in the contract labor. And I think that there's definitely a correlation between our quality metrics and our decreased reliance on contract labor, and that's going to continue. We really do believe that we do a better job with full-time employees who are committed and dedicated, and that's something that we feel very good about. We've also installed, as we've

said before, some consistent IT platforms, just time clocks that are now all of our hospitals. It gives us the opportunity to start looking at our labor on a real-time basis instead of a pay period lag, which is usually about two weeks. So we're going to continue to focus on our labor cost. And I think that you and the shareholders should feel very confident that we've demonstrated we can do that and we'll be able to continue to generate some really strong performance in our labor.

Operator: Your next question is from the line of Whit Mayo with Robert W. Baird.

<Q – Whit Mayo>: Hey, thanks guys.

<A – Jay Grinney>: Good morning, Whit.

<Q – Whit Mayo>: Good morning and good luck John. I guess just let me follow up on Pito's question a little bit. I understand the 2.3% merit increase in fiscal 2010. Can you talk maybe, Jay or John, about some of the other benefit changes that perhaps you made in 2010? I can't remember if you may have changed some of the designs around 401(k) or anything like that.

<A – Jay Grinney>: No, we didn't change the 401(k) matching. We did eliminate the automatic enrollment in the 401(k) last year, and that was in very large part because with the economy tightening and the markets going down we felt that many of our employees wanted to have the option of keeping some of their paycheck instead of automatically having that go into the 401(k). Most of the benefit changes were made effective on January 1. And probably the biggest was the change in our paid time-off program. I think we've mentioned last year that we had maybe I think six different PTO plans that we consolidated into one. When we did that, I think we overshot the mark and had frankly a PTO program, while consistent, was a little more generous than the what we saw our competitors having. So we scaled that back a little bit and adjusted that. And I think that those are the major changes. Most of those you're going to see really cycling through on January 1.

<Q – Whit Mayo>: Okay. And then if I just look at and isolate the merit increase or just if I look at your salaries, what percentage of your total SWB is just the salary expense just ballpark?

<A – Jay Grinney>: I don't know that I have that right off the top.

<Q – Whit Mayo>: Okay.

<A – Jay Grinney>: We can get that to you.

<Q – Whit Mayo>: Okay. And then maybe can you frame up just in terms of dollars your contract labor, just how much that expense is down year-to-year, do you have that?

<A – Jay Grinney>: I'm very sorry, I'm having a hard time hearing you. I don't know...

<Q – Whit Mayo>: Jay, I'm sorry Jay, can you hear me better now?

<A – Jay Grinney>: Yeah, that's better.

<Q – Whit Mayo>: Yeah.

<A – Jay Grinney>: I apologize. I don't know if we're having difficulties with the lines, but we're having a hard time hearing you.

<Q – Whit Mayo>: No, I'm sorry. The question was around contract labor. I just wanted to know if you could frame up just in terms of dollars how much that was down year to year in the third quarter.

<A – Jay Grinney>: We can get that to you as well. The contract labor – what was the dollar amount? John's looking?

<A – John Workman>: Close to …

<A – Jay Grinney>: Yeah about 1 million, almost 1.5 million. For the quarter, contract labor was down compared to prior year. We had 2.6 million in the quarter and prior year – gosh, we had 10.5 million.

<A – Jay Grinney>: 10 is year-to-date. So down five.

Operator: Your next question is from the line of David MacDonald with SunTrust.

<Q – David MacDonald>: Good morning, guys. Jay, just a quick – can you make a quick comment, I mean obviously financial flexibility is improving, presumably you guys will get a slug of cash from E&Y at the beginning of the year. Should we expect to see you guys maybe ramp up either bed expansions, acquisitions, de novo, should we expect a little more aggressiveness on that front in 2010?

<A – Jay Grinney>: We said in the third quarter and are certainly repeating today that we believe we are in a position to look for growth a little more aggressively than we have in the past. And clearly the amend and extend gives us the opportunity to do just that. We're not going to go out and do a deal just to do a deal. We're going to be very disciplined as we look for growth opportunities. Certainly there are opportunities in our existing hospitals. We've done a great job of bringing new patients in. That gives us the ability to add beds. We'll continue to do that. We have a nice pipeline of development opportunities in existing and new markets. So yes, we definitely look for more growth. And while we're not going to abandon the deleveraging, that is very very very important to us, there are a lot of ways to delever. You can go after the numerator or you can go after the denominator. We want to do both. And so we'll continue to pay down debt, but we're also going to look for ways that we can bring new EBITDA on, new earnings on. And clearly looking to do that through growth is now much more available and much more of a possibility and frankly much more prudent than it was say six months ago, and we feel very good about going into 2010 and doing that with our focus on a combination of deleveraging and growth.

<Q – David MacDonald>: And then Jay, have you guys seen, just kind of given what's going on in the world, any changes in the behavior of the hospitals that some of your hospital competitors may be more willing to outsource stuff to you, thinking about closing down their IRF wing, I mean are more of those opportunities kind of bubbling up?

<A – Jay Grinney>: I don't see any real change as a result of the economy. What we're finding is the following. There are some hospitals out there with IRFs who are really having a hard time meeting the 60% threshold. They've got 25, maybe 30 beds that are allocated to inpatient rehabilitation. And because of the rule, because of some of the other coverage requirements that are coming down the road, they're looking at saying, "You know, we could better use those beds for med/surg purposes." And in those instances, we'll definitely want to, if we have an existing IRF in that market, to buy those units and to consolidate them into our hospitals.

We also are pretty excited about the de novo opportunities. I know it takes a little bit longer to bring those on stream and that's much more of a longer term investment, but we're managing this company for the long term. And so de novos are very attractive means of providing sustained long-term growth. So to answer your question, no, I don't see a lot of exogenous issues that are changing the development dynamics. And I think that where we see the opportunities are in new markets. We also see the opportunities where an existing IRF provider is just struggling. They don't have the expertise, they don't have the clinical pathways, and they believe that we could be a

very viable alternative to either partner with us or to sell the services to us and then we run that independently.

Operator: Your next question is from the line of Adam Feinstein with Barclays Capital.

<Q – Bryan Sekino>: Hi, good morning. This is actually Bryan Sekino on behalf of Adam. First off, I want to say congratulations to John on your achievements and good luck in your new role. But if I could also ask a question on the costs here as it relates to some of your other operating expenses, it's actually decreased on an absolute dollar basis thus far in 2009. Just wanted to know if you can highlight where you've made progress there and the potential for this expense line in 2010 as your volumes grow?

<A – Jay Grinney>: Well, it's really been across the board. There is no one single line item that has driven the success. I mean it's really just blocking and tackling, being very focused on every penny that we spend. And clearly we're going to continue to look for ways to standardize some of our practices within all of our hospitals and looking for compliance with regional or national contracts. But there isn't any one sort of secret sauce that resulted in these kinds of results. I mean it's really just very basic blocking and tackling. As far as our ability to manage through 2010 and into 2010, it's hard to say, "Okay, here is exactly what we're going to do and here is exactly what the targets are." We don't get down into the granular level, but I do think that the results of the last seven quarters should give shareholders some comfort that we do know how to manage our hospitals. And as the volumes go up, we hope to be able to bring those patients in on a truly incremental basis and we're going to continue to look at all expenses at the corporate office, in the hospitals, at the regional level to see if there are continued opportunities to improve the efficiency of our operation. So, it may not be the answer you want but it's behind this one, nothing really – there is no one big driver out there. I mean it's just across the board. It's looking at everything.

<Q – Bryan Sekino>: Okay, thanks. And just one more question here, on the outpatient side, I know you've anniversaried the exit of the 11 facilities. Just in terms of the growth going forward, could you kind of give us an indication how we should think about that business and how maybe even longer term goals for outpatient factor into your guidance for 2010?

<A – Jay Grinney>: Yeah, outpatient is never going to be a major driver for this company. We do have the satellites that supplement the existing hospitals. We are always evaluating the profitability of those satellites. In some instances those satellites are duplicative of the outpatient services actually in the hospital and department of the hospital. So, we're always going to be looking at that. Some of that outpatient business is also home health. We are seeing some nice growth in our home health business. We'll continue to evaluate adding additional therapy-related home health services; we've got 25 right now.

And so, we feel pretty good about that aspect, but clearly the outpatient physical therapy business is just a tough business. Very low barriers to entry. To get these therapists in, they establish relationships with physicians and frankly patients and with $150,000 they can go down the street, lease some space and boom they're in business. So it's not a major driver, it's not a major contributor to our revenue base, it's even a less important part to EBITDA and earnings. So, we'll continue to look at outpatient to supplement and to augment what we have on the inpatient side, but it's not going to be a major component of the company going forward.

Operator: Your next question is from the line of Paxton Scott with Jefferies & Company.

<Q – Paxton Scott>: Hey, good morning guys, very nice quarter. Just -- most of my questions have been answered but just real quick on the volume growth. I was wondering if you could kind of quantify how much of that is coming from kind of taking market share away from other providers in the markets that you operate and how much of that is coming from increased demand for your

services? And then two, if you could just talk a little if there was any change in kind of the procedure mix in the quarter, if there was any trends there worth highlighting. Thanks.

<A – Jay Grinney>: I'll that the question on market share and then I'm going as ask Mark to address the program mix that we've seen. As we said in the past, there isn't a lot of really good reliable market specific data that we can point to and say, okay in this market last quarter there were 6,000 strokes and 500 of them went to this hospital and 800 went to us and 400 went to skilled nursing. We'd love to have that information but it just doesn't exist. The best we can do is look at the UDS data that reflects the admissions coming into other UDS reporting inpatient rehabilitation hospitals and that information is available usually on a quarter lag.

So as we look at the second quarter of this year and we look just at the UDS data all non-HealthSouth UDS reporting sites were basically flat compared to the second quarter of 2008. They showed 0.1% increase. Based on this same data our hospitals were up 4.3%. So that compared pretty favorably to what we've seen over the last seven quarters. Based on the UDS data we're seeing either flat or slightly downward trends in volumes whereas we continue to grow our volumes.

So we certainly take from that, that we are continuing to take market share. That market share is going to be coming from skilled nursing providers, is going to be coming from other inpatient rehabilitation facilities in our markets. And again, we feel that it's really a reflection of the quality of care and the commitment that our employees have to their patients. I mean this is all we do. And we do it extremely well and I think that the results kind of speak for themselves. I hope that gives you some flavor. I wish we did have better market specific information, but just unfortunately don't. But we do have the UDS data and that suggests that we continue to take market share.

<Q – Paxton Scott>: That is very helpful. Thank you. And then just on the procedure mix?

<A – Jay Grinney>: Yeah Mark you want to...

<A – Mark Tarr>: Yeah, sure Paxton. We've made a concerted effort to grow our neurological programs the past couple of years. As you know those are the types of patients that typically follow the stroke categories, there are also the types of patients that are with a higher acuity than what you might have seen in the past in rehabilitation hospitals.

In terms of actual case growth, we've had the highest case growth in our stroke and neurological, we've seen a shift away from orthopedic focus programs such as lower extremity joint replacement where we're seeing a drop from 11% of our total cases last year in third quarter to only 9% of the total cases this year. So we think we're focusing on the right types of patients. Those patients that have less issues relative to passing the review on medical necessity and they are just great rehab patients with great outcomes.

Operator: Your next question is from the line of A.J. Rice with Soleil.

<Q – Chris Rigg>: Hi, good morning. It's actually Chris Rigg calling in for A.J.

<A – Jay Grinney>: Hi Chris, how are you?

<Q – Chris Rigg>: I'm well. Thanks. How are you?

<A>: Great.

<Q – Chris Rigg>: At this point most of my questions have been asked, but I did want to followup on the de novo development. Obviously, Select became public recently and they've been talking about this as an avenue of growth for them. I am just wondering, have you seen anything change in terms of the competitive dynamics out there in the de novo side?

<A – Jay Grinney>: Not really.

<Q – Chris Rigg>: Okay.

<A – Jay Grinney>: We haven't seen any change. There are going to be certain markets that we're looking at, there may be other market that others are looking at; but no, we really haven't seen any change on that.

<Q – Chris Rigg>: Okay. And then on the amendment to the term loan, I guess could you just provide a little more color as to the timing of the amendment, I mean it almost seems like it would have made sense to at least see what happened with E&Y because maybe that could have impacted the revised terms of the agreement, could you just give us some color as to the thinking there?

<A>: Yeah, I guess in a perfect world that you have complete visibility into the future and knew what the markets were going to look like in 2010, you might be able to argue that you should wait. But I don't know about you, but I'm not -- we're not very good at predicting the direction of the market and so, our view has always been that we are going to be looking at the capital structure and making changes that make sense at the time based on the best knowledge that we have. And we can go back and look at a couple of different major decisions we made where people said "well, why didn't you wait"? And then six months or five months later, they looked back and say "well, you guys are really smart doing it when you did".

So, it's really hard to answer something like that within the context of what might be, because nobody knows what it might be. So, we looked at our capital structure. We recognize that, as we talked about a minute ago, we want to move into a more balanced growth and deleveraging posture similar to what we've had in the past before the markets collapsed last year. There were certain restrictions in the credit agreement that we wanted to loosen up, and we also frankly thought it made sense to take some of that and push it out for a couple of years. So, I think the timing was right. The markets certainly were favorable. We got it done, and who knows what next year is going to look like. We certainly don't.

<A – John Workman>: I'll just add -- this is John, one comment I mean. The company saw a lot of pre-payable debt. So, we've just done a portion of that term loan pushed out. There is still a lot of pre-payable debt on the company's books that the Ernst & Young proceeds could be used to apply towards.

Operator: Your next question is from the line of Sheryl Skolnick with Pali Capital.

<Q – Sheryl Skolnick>: Good morning.

<A – Jay Grinney>: Good morning, Sheryl.

<Q – Sheryl Skolnick>: Good morning, and thank you for taking my question and just to dovetail on what you just said, I think your timing was excellent because god forbid you don't win E&Y, it would have been much more difficult for you to achieve the things that you achieved. So, for what it's worth, I think that your timing was excellent, and the market was well primed for it having just done the Select Medical deal, the terms were very similar I think with the arguments in both cases. Well, I think your arguments not to say, they were fairly robust. But I'm going to go back to that and to the term loan in my first question. Can you give us a sense of – as I understand it, you did increase the amount of the acquisition basket, and also if I also understand it correctly, and this is the question, did you also increase your restricted payments basket that would perhaps enable you to also reduce the amount of the – either the floating rate notes or the 10.75 notes that are out

there. And my understanding was the acquisition amount could be as much as 250 million, and the RP basket 300 million, or do I have that backwards?

<A – John Workman>: Turn those around. You're right on both counts, you turned the numbers around.

<Q – Sheryl Skolnick>: So, it's 300 for -

<A – John Worman>: Acquisitions.

<Q – Sheryl Skolnick>: – acquisitions and 250 for the restricted payments basket. And do you explicitly have the ability to repurchase the FRNs as part of that?

<A – Jay Grinney>: Yes, we do.

<Q – Sheryl Skolnick>: Okay, as well as the other 10.75. So, you don't only have to use that for secured debt?

<A – John Workman>: No, secured debt is the 300 million that I mentioned on secured debt, we had an accordion feature already in the credit agreement.

<Q – Sheryl Skolnick>: Understood.

<A – John Workman>: And so, now, we can actually use that accordion not just for new loans but also for secured debt, and we would not be required to pay the term loan down then if we did secure debt against that accordion feature.

<Q – Sheryl Skolnick>: And that secured debt could then – because you are not required to repay the term loan with the term loan accordion, you can then use it to do other things?

<A – Jay Grinney>: Correct.

<Q – Sheryl Skolnick>: Got it, okay. That's very helpful. And I think the timing on that is excellent because if I understand what you are saying, and this is dovetailing into my next question. I am curious about your ability to gain significant market shares as measured by volume growth, as measured by the – we'll call it this benchmark of you are growing by more than 4% and the rest of the market is not. As to whether or not that fits into your comments earlier that some of the other either hospital based or smaller units may be having trouble achieving their target of 60% compliant case growth. Because, we sometimes hear that while they may have non-compliant cases making up their occupancy in the beginning of the year. As they get closer to the end of the year and due date, they then have to drop their occupancy fairly quickly. So, I am curious about whether in your market share statistics and in your volume growth statistics how much of that represents compliant case growth. And is there a consistency of compliant case growth through the year, and whether that isn't really your competitive advantage in this, and the factor that may allow you to acquire and operate these units more effectively and efficiently.

<A – Jay Grinney>: Well, I do think that that plays into our competitors what you just described. We are aware. In fact, we've seen reports where hospitals have severely limited their patients coming in, because of their need to hit that 60% threshold. When we saw the thresholds climbing up, and we had to deal with that in the early stages, we kind of learned our lesson then, because frankly, we ran into some of those situations several years ago. And, we made a commitment to ourselves that we just weren't going to run into that same situation. So, we try to keep that compliance level in that 61 to 62% range. We like a little bit of cushion. That's an obviously an average number for all of our hospitals. But, our compliant case growth frankly is outpacing our non-compliant case growth. And it's because of what Mark said, the clinical focus on strokes, the

clinical focus on the neurological conditions, is allowing us to increase the compliant cases at a faster pace than the non-compliant. Did that help, Sheryl?

Operator: Your next question is from the line of Ann Hynes with FTN Equity Capital.

<Q – Ann Hynes>: Good morning.

<A – Jay Grinney>: Good morning.

<Q – Ann Hynes>: Thank you. And John, I will miss you very much. Good luck.

<A – John Workman>: Thanks, Ann.

<Q – Ann Hynes>: So, just two questions. One, Jay, I know you've spent a lot of time in Washington and you really haven't talked about that so far on the call. Can you kind of give us an update on what you think is going to happen over the next couple of months? And then I guess secondly a longer term question. You've spoken in the past about potentially diversifying your business into other post-acute areas. I am sure you saw the rehab announcement yesterday. I guess how do you view that going forward, may be not over the next 12 months, but may be over the next three to five years? Thanks.

<A – Jay Grinney>: Yeah, let me take the question about other post-acute services and yeah, we saw that. We knew that Triumph had been shopped around for a while, and I guess my view is that there are still enough uncertainty around long-term acute care that we, this is just us, and every company has a different profile of how much risk they want to take and whether not it makes sense for them, we have six LTCHs today. We are very happy with them. I think that they provide a tremendous service to the community.

The problem is that the folks at CMS still aren't convinced that LTCHs are here to stay. I mean, the questions that I hear, or the comments I hear out of CMS are things like "well, if they are so important, why don't we have them in every single market?"

There are others who are saying long term acute care is an oxymoron, either it's acute care or it's long term. You can't have it both ways. And so, we still look at LTCHs as from a provider standpoint, very important, from a quality of care stand point, very important.

The reality is that the biggest regulator of our business, CMS, doesn't quite view it that same way. And, there is a moratorium today. We don't know if there's going to be a moratorium next year, if this is going to be extended. So, for us, LTCHs are important, and as we look at it as providers, we think it is a very very important part of the continuum. We are concerned that the regulator, i.e. CMS, doesn't view it that same way. And so until that uncertainty is resolved, we are going to be focusing in the near-term on opportunities to expand our footprint in the rehab space. So, that's going to be the bed addition, the de novos, the market acquisitions that we believe we'll be able to achieve either partnerships or outright acquisitions through our development pipeline. Longer-term, we do believe that there are opportunities if there is clarity from Washington on LTCHs, and that's a big IF. If there's clarity, we think, again because we like it as a provider, we think that's a terrific area to pursue and to grow. But, at this point, there is too much risk for us. That's our profile.

<Q – Ann Hynes>: Okay.

<A – Jay Grinney>: We also think that longer-term, if we move into a bundling kind of environment as we pile it to bundling, there are going to be opportunities for us to get synergies from our sales and marketing and our back office, looking at other post-acute services like home health, potentially hospice, long-term acute care, and then on a very very isolated basis, potentially skilled nursing. But that's downstream. Right now, as we look at 2010 and 2011, we are going to be putting our

emphasis on expanding our inpatient rehabilitation base, because we know we can bring those kinds of hospitals on, and do it almost effortlessly given the very very strong platform that we have established. The integration risks of doing that would be virtually non-existent.

So, that's kind of our view on growth; again in summary: short-term, 2010 and 2011, really focusing on the IRF platform and longer term, evaluating the changes coming out of Washington, looking at what might be coming down the road in terms of bundling these services, and then opportunistically look for acquisitions that might be a little bit off of the IRF profile.

In terms of Washington, I think, I mean it's anybody has guess what's going to happen. I was intrigued to hear Senator Reid say that that this may get pushed into 2010. I think that there are a lot of balls, obviously, in the air, a lot of work that still has to be done. Our view is that what the hospital industry negotiated with the finance committee in terms of our paying for some of this reform to market basket reductions while not ideal, we loved it and think that we deserve a full market basket, we understand we're going to have to pay for something, we're at held pay for this. So, that's kind of what we built into our model and into our budget for 2010 is this market basket minus 25 basis points, which is in the Senate Finance Committee packets.

But there is -- I think that's really very difficult to predict with complete accuracy what's going to happen between now, say at the end of the year early next year, I mean frankly the elections yesterday in New Jersey and Virginia that may come into play. There maybe some Blue Dog Democrats out there and modern democrats will say well, wait a minute, there is a growing legitimate concern about this deficit that continues to grow and grow and do we really want to add additional expenditures trillion dollars over 10 years on the healthcare reform. I'm not here to argue the position one way or the other, but the reality is people are starting to realize that the economy is really being burdened by this debt and we're going to have to do something about that.

So, if I had to bet right now and let's say, yeah, there is going to be some kind of reform, I don't know what it's going to look like. But I bet that there is going to be something. And if we have to pay our fair share as a hospital with other hospitals, we'll do that. If it's in that 20 to 25 market -- basis point reduction in the market basket, not ideal, but we can certainly manage through that. We'll have to continue to be disciplined with our expense control. But I think that we'll be able to do fine.

<Q – Ann Hynes>: Great. Thanks.

Operator: Your next question is from the line of Gary Lieberman with Wells Fargo.

<Q – Gary Lieberman>: Thanks, good morning.

<A – Jay Grinney>: Hey Gary.

<Q – Gary Lieberman>: Thanks for all the color on the volumes in the market share gains. It might be helpful if you could give some color around what's involved in sort of the standardized sales and marketing that's going on. It helps out now versus 2 or 3 years ago and also anything else that you're doing differently that's helping you get the robust volume that you're seeing?

<A – Jay Grinney>: No. It's really the same thing that we've talked about before which really was a complete rebuilding of all of the steps between identifying a patient who may benefit from impatient rehabilitative care to getting that patient in one of our beds. And it looked at the processes, it looked at the systems, it looked at decision trees, it looked at the kinds of employees we had in those roles, it looked at the turnaround times, it looked at the role of physicians in that process and what we did is we tried to streamline it focusing on the needs of the patient, focusing on the needs of the case manager at the acute care hospital that's being forced to get that patient out of the acute care environment and into some of them kind of post acute setting. So, what we

did in the latter part of 2007 and then through 2008 was really focus on making sure that we built up this new system and did that throughout all of our hospitals.

We've then in 2009 rolled out what we referred to a sort of the sustainability module. So it was a comprehensive effort to get everybody on the same platform. We then supplemented that with additional training, with additional refinements to that process that continued to generate some pretty impressive results.

I will tell you one of the things that we are able to do which I think is a pretty significant contributor to our sustained volume growth is, we expanded our footprint and we challenged our hospitals to look beyond their traditional sources of patients and expand that both geographically and in terms of the kinds of referral sources that might have a patient that could benefit from inpatient rehabilitation care. So, in a given market, 5 years ago, the sales and marketing team maybe only going to two acute care hospitals and it's the same two hospitals that they've gone to for the last 10 years.

With a more refined, a more efficient sales and marketing process, which gives the sales and marketing folks the ability to be more productive and more efficient, at the end of the day they have some time left over, they can travel a little bit further, they can go to that other acute care hospital that maybe hasn't been able to refer us patients in the past. So, it's really kind of a combination of all of that that's allowed us to continue to grow our market share. We'll tell you though at the bottom -- at the core of all this, at the core is the fact that our employees are experts. We have clinical pathways. We have physicians. We have the best in terms of inpatient rehabilitation services and outcomes and ultimately that's what brings patients in and what brings patients back.

<Q – Gary Lieberman>: Good. And one just quick follow-up, I guess as time goes by in the strategy what's your concern, what's the likelihood that your competitors respond by maybe implementing some of the same types of changes that you've made or are they just structurally not able to do that?

<A – Jay Grinney>: Most of our competitors are standalone departments inside acute care hospital walls and so, is it possible, I guess everything is possible, but for us it was about a $12 million investment that we had to make over a year period to break this down, to create and then to roll out and to sustain. And so, I don't know that to think about it, it's a community hospital and the community hospitals CEO is sitting and thinking about what do I do with the bad debt coming into my emergency room. How do I accommodate the radiologists who want a new 64 slice CT scanner?I've got surgeons who are threatening to pull out and take their business elsewhere. I mean that's what the hospital CEO is focusing on in an acute care hospital. That's really what most of our competitors are. So, the ability for 10 or 12 bed – 10 or 12 ADC units inside an acute care hospital to create what we've created I think is pretty remote. So, maybe there is an opportunity in some of the other smaller earth players, but we haven't seen it yet.

Operator: Your next question is from the line of Alan Fishman with Thomas Weisel Partners.

<Q – Alan Fishman>: Hi Jay. How are you?

<A – Jay Grinney>: Good morning Alan.

<Q – Alan Fishman>: Good morning. So, first, I guess on the efficiencies improvements as you look out to 2010, we're beginning to – we're seeing the impact of the TeamWork's exercise on sales referral improvement and the operating EBITDA margin improvement in the third quarter was very good and you attribute that to contract labor. As you look out to 2010 and 2011, where do you think your efficiency on sale, on SWB and operating expenses can grow, particularly SWB as you rollout another kind of iterative efficiency improvement process?

<A – Jay Grinney>: Yeah. Alan that's kind of the same question that Pito asked at the beginning and maybe we've touched on it as well. And what we don't want to get into is trying to go line item by line item and trying to forecast specific targets on any of those line items. We want to try to focus everybody on is bottom-line results and the ability to get there through continued growth on volumes. I will tell you that we're never going to sit there and assume that we've done all that we can with respect to labor efficiency and quality of care. We made an investment this year in standardized time clocks in all of our hospitals. We made an investment in IT platforms that will allow us to then look at our labor on a real-time basis. We will make an investment at some point down the road in some kind of TeamWork's approach on labor productivity.

Right now, we don't know how much variability exists on a real time basis in our hospitals and what the potential is to reduce that variability and move the entire portfolio to best-of-class performance levels. We know that the systems that we've just talked about will give us that information and then we'll be able to say okay. There is a lot of upside, there is a little bit of upside, there is upside that will achieve over an extended period of time. But without saying what exactly we're going to be targeting in terms of SWB as a percent of net or EPOB, I think it's very fair to say we're going to continue to make that a priority and a lot of that is going to be coming through our ability to continue to bring patients in.

<Q – Alan Fishman>: Fair enough. And then secondly, I guess you spoke about the expansion of referral sources and sites, could you also talk about as the company has increased the acuity mix of patients in the inpatient rehab hospitals, are you expanding the level of patient that you can see and is that also expanding the addressable market even in particular markets?

<A – Jay Grinney>: I'll ask Mark to give some color commentary on that.

<A – Mark Tarr>: Yeah. As I mentioned earlier, as we've expanded our neurological base programs and other programs that have a tendency to take care of a higher acuity patients. We've had to do a number of things and including bringing out a different skill set, some of our nursing physicians. We've done additional education for our staff themselves. In some cases, we brought on a different mix of medical leadership into our hospitals. Hospitalists and Intensivists to help take care of these different types of patients that have a higher acuity. We've had to incorporate different technologies into our programs, into our hospital. So yes we've changed our platform, our resources as necessary to take care of these higher acute patients.

Operator: Your next question is from the line of Miles Highsmith with RBC.

<A – Jay Grinney>: Good morning, Miles.

<Q – Miles Highsmith>: Hey guys, good morning. Thanks for all the color on a long call. I just really had one to clarify from an earlier question, a bond-related question. In terms of amend and extend, I guess my read is correct there was an increase in the lifetime basket on the restricted pay on that credit agreement from 100 to 250. I'm just sort of curious, if I remember correctly, you had about 2/3rds of that 100 available and you have the 50 roughly every year that renews every year and didn't have any bond in the third quarter. I'm just curious as to why the expansion, is it just pure flexibility and you had a chance to do it or is this the type of the thing where you chip away it, call the floaters, you've been buying it recently, you chip away the floaters couple of years and it enables you to call them in a couple of years or something like that or am I reading too much out of this or is there anything specific around the expansion?

<A – Jay Grinney>: Miles, you got the right idea. The floaters, if you look at the appendix, it shows that the maturity of the extension and it puts up in 2015 contingent on a finishing to refinance of floaters or to repurchase them all. So we've reloaded the back so that we could handle the floaters through either way, refinancing or repurchasing.

<Q – Miles Highsmith>: Perfect. Thank you so much. John, best of luck. Congratulations.

<A – John Workman>: Well, thank you Miles.

Operator: Your next question is from the line of Rob Hawkins with Stifel Nicolaus.

<Q – Robert Hawkins>: Hi, thanks.

<A – Jay Grinney>: Hey, Rob how are you?

<Q – Robert Hawkins>: Good. And John, hate to see you go. And have some fun up there in Cincinnati. You still turn into a Red's fan or maybe a Bengal's fan.

<A – Jay Grinney>: I don't think so, he is die-hard Chicago Bears.

<Q – Robert Hawkins>: Okay, all right. I guess you've gone into quite a bit of color around volumes or some of the strategy ideas. I'm intrigued by the Home Health and then maybe even some of the de novo things that are going on in kind of looking at your development activity that you've done with big systems like some of the academic institutions like Virginia, Warnerville, Washington. First of all, with Home Health or with JV de novos, a lot of health reformers pushing towards this integration and I know we've seen this before. It's tricky to pull off, but de novo -- what kind of opportunities are you guys thinking about in terms of the Home Health expansion and maybe some of the de novo expansion possibly with bigger systems and more encompassing a bigger part of the market rather than kind of some of the 40-bed one-off things?

<A – Jay Grinney>: Well, first of all even in the situation where we might partner with a large system, most of those that we're considering are going to be in that 40-bed range. That is a very good model for us. And so I don't see us going to say an 80-bed model just by virtue of lining up with a large system. I can see if a large system had that kind of inpatient rehabilitation business that they were discharging from their hospital, chances are we'd be looking at maybe multiple sites or like what we did up in Bristol, Tennessee where we have a satellite that is a smaller facility that's supported by a larger unit close by. So I think that the Home Health side of the equation is very intriguing to us. We focus most, if not all of those services on therapy-related Home Health services. That's our sweet spot. That's what we feel pretty good about. As we're able to, we will look to add additional agencies.

As you know, in many states that's restricted by Certificate of Need, it's tough to get those in some of the markets, because frankly the Home Health segment is very fragmented and there are some markets like in Houston. I was with a couple of the Home Health CEOs about a month ago and I mean, I spent 15 years in Houston and they we're just talking about how competitive it is. And they say, well, how many agencies do you think are in Houston today? I was going to say, maybe a 120, 150. It's like 800. So it's not tightly regulated. The barriers to entry are non-existent. It's a very very tough market that's going to do the full range. I think our focus is on bringing on Home Health agencies that supplement the care needed for all the patients who are discharged from our hospitals and who require some additional services in the home. So it's not going to be a major driver for the company's growth. The major driver for the company's growth is going to be bed additions, transactions in new or existing markets with individual hospitals and or de novos that plan to siege for long-term growth that shareholders would be able to benefit from, for years going down the road.

<Q – Robert Hawkins>: Okay. And then do you still envision along those lines for the hospitals, still kind of the same 4 to 5, 4 to 6 type of number to still gets you into that 5 to 8% EBITDA growth?

<A – Jay Grinney>: Yeah. What we see is the 4%, as we've said all along, is going to be a function of same-store plus bed additions plus de novos going downstream. The acquisitions would be seen in a separate bucket.

Operator: There are no further questions.

<A – Jay Grinney>: Operator, does that conclude all the questions?

Operator: Yes, sir. There are no further questions at this time.

Jay Grinney, President and Chief Executive Officer

Very good. Well, thank you so much.

Mary Ann Arico, Senior Vice President, Investor Relations and Corporate Communications

If you have additional questions, we will be available later today. Please call me at 205-969-6175. As a reminder, we will be attending the Lazard Healthcare Conference in New York on November 17. Thanks again.

Operator: Thank you all for participating in today's conference call. You may now disconnect.