HealthSouth Q3 2014 Earnings Call Transcript

Corporate Participants

Mary Ann Arico – Chief Investor Relations Officer, HealthSouth Corp.
Jay F. Grinney – President, Chief Executive Officer & Director, HealthSouth Corp.
Douglas E. Coltharp – Chief Financial Officer & Executive Vice President, HealthSouth Corp.
Mark J. Tarr – Chief Operating Officer & Executive Vice President, HealthSouth Corp.

Other Participants

Dana Nentin – Analyst, Deutsche Bank Securities, Inc.
Matthew D. Gillmor – Analyst, Robert W. Baird & Co., Inc. (Broker)
Gary Lieberman – Analyst, Wells Fargo Securities LLC
Chad C. Vanacore – Analyst, Stifel, Nicolaus & Co., Inc.
Frank G. Morgan – Analyst, RBC Capital Markets LLC
Joanna S. Gajuk – Analyst, Bank of America Merrill Lynch
Murali Ganti – Analyst, Citigroup

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to HealthSouth Third Quarter 2014 Earnings Conference Call. At this time, I would like to inform all participants that their lines will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions] You will be limited to one question and one follow-up question. Today's conference call is being recorded. If you have any objections, you may disconnect at this time.

I will now turn the call over to Mary Ann Arico, Chief Investor Relations Officer.

Mary Ann Arico, Chief Investor Relations Officer

Thank you, Maria, and good morning, everyone. Thank you for joining us today for the HealthSouth third quarter 2014 earnings call.

With me on the call in Birmingham today are Jay Grinney, President and Chief Executive Officer; Doug Coltharp, Executive Vice President and Chief Financial Officer; Mark Tarr, Executive Vice President and Chief Operating Officer; John Whittington, Executive Vice President, General Counsel and Corporate Secretary; Andy Price, Chief Accounting Officer; Ed Fay, Treasurer; Julie Duck, Senior Vice President, Financial Operations.

Before we begin, if you do not already have a copy, the press release, financial statements, the related 8-K filings with the SEC and the supplemental slides are available on our website at www.healthsouth.com.

Moving to slide two, the Safe Harbor, which is also set forth in greater detail on the last page of the earnings release. During this 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's projections, forecasts, estimates and expectations are discussed in the company's SEC filings, including the Form 10-K for 2013, the Form 10-Q for first quarter and second quarter, and the third quarter 2014 10-Q when filed, and previous SEC filings. 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 this presentation are based on current estimates of future events and speak only as of today. The company does not undertake a duty to update or correct these forward-looking statements.

Our slide presentation and discussion on this 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 and as part of the Form 8-K filed last night with the SEC.

Before I turn it over to Jay, I would like to remind you that we will adhere to the one question and one follow-up question rule to allow everyone to submit a question. If you have additional questions, please feel free to put yourself back in the queue.

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

Jay F. Grinney, President, Chief Executive Officer & Director

Great, thank you, Mary Ann, and good morning to everyone joining our call this morning. The third quarter was another solid quarter for HealthSouth. Discharges grew 3.8% against growth of 5.7% in Q3 of 2013 and included the closure of 40 SNF beds at our Harmarville Hospital. Normalizing for this closure, total discharge growth was 4.2%, while normalized same-store discharge growth was 2.3%. Strong top line growth of 5.8% was driven by this increase in discharges and continued favorable inpatient pricing, offset by a decline in outpatient and other revenues.

Adjusted EBITDA for the quarter came in at $140 million, an increase of 3.3% over prior year. There are two items to take into consideration when evaluating this year-over-year growth. First, as Doug will elaborate later, our adjusted EBITDA was impacted by a $4.8 million negative swing in our insurance reserve adjustments.

As reported previously, we've experienced continued improvement in claim trends in our group health, workers' comp and GP&L, self-insured programs. These improvements have resulted in reductions to our insurance reserves that favorably impacted insurance costs in both years. In the third quarter of 2013, we took a $7.8 million adjustment to these reserves; while this quarter we took a $3 million adjustment. This $4.8 million swing reduced our year-over-year adjusted EBITDA growth by approximately 400 basis points.

The second item was $1.6 million in pre-opening start-up cost associated with the three new hospitals that are scheduled to open in the fourth quarter. Our 50-bed hospital in Altamonte Springs, Florida, our 50-bed hospital in Newnan, Georgia and our 34-bed hospital in Middletown, Delaware.

As a remainder, we are required to treat a minimum of 30 patients at each facility before we can receive Medicare certification. So these patients will be treated without reimbursement. In addition to these new hospitals, we also made excellent progress on other development projects that will contribute to growth in 2015. We moved forward with our joint venture with the Mountain States Health Alliance for the 26-bed Quillen Rehabilitation Hospital in Johnson City, Tennessee and expect this hospital to be operational by year-end.

On August 22, we received final approval from the Tennessee Court of Appeals to proceed with our plans to build a 40-bed hospital in Franklin, Tennessee. We will begin construction on this hospital in the fourth quarter and expect it to be operational by the fourth quarter of 2015. We also moved forward with our plans for a 50-bed hospital in Savannah, Georgia, which will be a partnership with Memorial University Medical Center and expect this hospital to come online in the first half of next year.

Finally, in addition to these new hospitals, we expect to add 51 beds to existing hospitals by year-end, which will contribute a total of 211 new beds to our portfolio prior to January 2015. As a result of our solid year-to-date performance, we are tightening our full-year adjusted EBITDA range to $575 million to $580 million. Full-year EPS guidance is now between $2.24 and $2.27 per share.

Our EPS guidance is being impacted by an approximately $13 million or $0.08 per diluted share loss on early extinguishment of debt that we expect to record in the fourth quarter of 2014 due to our recent debt transactions.

I'll now turn the agenda over to Doug for a more thorough review of the quarter's results.

Douglas E. Coltharp, Chief Financial Officer & Executive Vice President

Thank you, Jay and good morning, everyone. As Jay indicated, Q3 was a solid quarter for our company. Revenue for Q3 increased by 5.8% over the prior year period, driven by inpatient revenue growth of 6.6% with 200 basis points of this growth attributable to the consolidation of our Fairlawn Hospital. Please recall that in the second quarter, we acquired an incremental equity interest in our Fairlawn Hospital and, as a result, Fairlawn is now treated as a consolidated entity for accounting purposes.

The inpatient revenue growth was comprised of a 3.8% increase in discharges and a 2.7% increase in revenue per discharge. The discharge growth was split evenly between same-store and new store with the new store growth attributable to Fairlawn. The increase in revenue per discharge resulted primarily from Medicare and managed care price adjustments.

Outpatient and other revenues declined by $2 million in Q3 of 2014 versus Q3 last year. We ended the quarter with 16 outpatient clinics as compared to 21 outpatient clinics at the end of Q3, 2013. There was one clinic closure during the quarter.

Bad debt expense for Q3 was 1.4% of revenue, in line with our expectations and reflecting the continuation of prepayment medical necessity claims reviews predominately arising from one Medicare fiscal intermediary, as well as the extensive backlog in the adjudication process for previously denied claims.

In his comments just a moment ago, Jay mentioned the reductions in our self-insurance reserves in both Q3 this year and Q3 last year. You may recall that in our conference call to discuss second quarter results, I provided a reminder that the second half of 2013 included approximately $13 million in favorable self-insurance accrual adjustments including approximately $6.7 million related to the lowering of our statistical confidence interval which we will anniversary in Q4 of this year. Those adjustments impact the comparability of certain year-over-year financial metrics and I'll attempt to highlight this impact as we continue through the Q3 results.

SWB of 48.6% increased by 80 basis points over Q3 last year, approximately 60 basis points of that increase was attributable to the year-over-year change in our insurance reserves. Due to favorable trends in claims, our reserves for group medical and workers' compensation were reduced by approximately $3 million in Q3, 2014 and approximately $6.3 million in Q3 of 2013.

The balance of the SWB delevering was attributable to the start-up cost of our new hospitals coming online in Q4. Jay mentioned in his remarks the start-up cost related to those new hospitals was $1.6 million, approximately $1 million of that was in SWB.

The anticipated incurrence of the start-up cost was also discussed in our conference call last quarter. Our continued emphasis on labor productivity was evident in our EPOB of 3.48 for Q3 flat with the same period last year. Hospital-related expenses as a percent of revenue for Q3 were flat with the same period last year at 20.7%.

During Q3, the ongoing benefit of lower occupancy costs stemming from our purchases of leased properties was offset by a $1.5 million reduction in general and professional liability reserves in Q3 of last year. A favorable adjustment that was not repeated this year. The reduction in those reserves last year was also attributable to favorable claims trends. The balance of $600,000 of the $1.6 million in hospital start-up cost was included in hospital related expenses for the quarter.

Adjusted EBITDA for Q3 of $140 million increased 3.3% over the same period in 2013. As Jay stated in his comments, the year-over-year delta in the magnitude of favorable self-insurance reserves negatively impacted the adjusted EBITDA growth rate by approximately 400 basis points for the quarter.

Adjusted EBITDA for Q3 benefited by approximately $2 million from the Fairlawn consolidation, with this benefit largely offset by approximately $1.6 million in the start-up cost for the new hospitals coming online in Q4.

Adjusted EBITDA for the first nine months of 2014 of $436.8 million increased by 6.7% over the same period in 2013, even after the approximately $8 million impact from sequestration absorbed in Q1 of this year.

As anticipated, both interest expense and D&A increased in Q3 2014 over Q3 2013. The increase in interest expense resulted from the exchange of the 2% convertible senior subordinated notes for shares of our 6.5% convertible preferred stock completed in Q4 of 2013.

As a reminder, although the exchange results in an increase in reported interest expense, it reduces our preferred dividend, creating an annualized cash flow benefit of approximately $10 million. The increased D&A relates to continued investments in our business, including the clinical information system which is now installed in 56 of our hospitals and the purchase of previously leased properties, which generates the ongoing benefit to occupancy cost I referenced earlier.

Diluted earnings per share of $0.53 for Q3 benefited from a lower effective tax rate resulting from a non-taxable gain on the Fairlawn transaction and our election to claim certain tax credits. Q3 2013 diluted EPS of $0.59 included a $0.13 per share gain in government class action and related settlements. The strong cash flow generation of our company was evidenced again in Q3, with adjusted free cash flow of $103.3 million. For the first nine months of 2014, adjusted free cash flow was $265.9 million compared to $264.6 million in the first nine months of 2013.

Please be reminded that maintenance CapEx of $65.9 million for the first nine months of 2014 includes approximately $12 million related to equipment purchases made in Q4 2013 that were paid for in Q1 of 2014. Adjusted free cash flow for the current year also reflects an increase in accounts receivable related to the continuing Medicare medical necessity claims denials, primarily from a single fiscal intermediary, and the lengthy delays in the adjudication process.

We have incorporated the growth in accounts receivable into our revised working capital assumption, appearing on slide 19 of the supplemental slides included with our earnings release. As noted on slide 19, even with the aforementioned $12 million timing issue on maintenance CapEx and the anticipated growth in accounts receivable, we expect adjusted free cash flow for 2014 to increase over the $331 million generated in 2013.

The cash we generated in the first nine months of 2014 supported $80.6 million in discretionary CapEx, $43.1 million in common stock repurchases, $47.4 million in cash dividends on our common stock, and the purchase of our increased equity ownership in Fairlawn.

Moving to the balance sheet, we continued our strategy of proactively and opportunistically managing our capital structure to reduce cost and enhance flexibility. During Q3, we amended our credit facility to add a $150 million term loan commitment to our existing $600 million revolver and extend the maturity date to Q3 2019.

We also issued an additional $175 million of our 5.75% senior notes due in 2024, with the add-on notes priced at a premium to par. On October 1, we used the proceeds from the additional notes, together with a $75 million draw on our term loan commitment and cash on hand, to fund the redemption of all of our $271 million of 7.25% senior notes due in 2018. This refinancing will lower our quarterly interest payments by approximately $2 million. Because the redemption on the 2018 senior notes was not completed until October 1, they remained on our balance sheet at the end of Q3, effectively overstating our leverage. A pro forma view of our debt capital structure incorporating the credit facility amendment and senior note issuance and redemption maybe found on slides 24 and 25 of the supplemental slides.

Please also note that we have updated our full year 2014 EPS guidance to incorporate the $0.08 per share loss on early extinguishment of debt incurred in Q4 with our debt transactions.

And now, we'll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Darren Lehrich of Deutsche Bank.

<Q – Dana Nentin – Deutsche Bank Securities, Inc.>: Hi. Good morning. This is Dana Nentin in for Darren. One of the questions I had, we've seen and heard a lot about how patients are being managed differently on a post-acute basis, especially around the readmission rules. With the new DRGs that were recently added to the readmission rule, do you expect to see any change in behavior whether good or bad as it relates to those DRGs and whether it may impact compliance levels under the 60% rule?

<A – Mark Tarr – HealthSouth Corp.>: Well, this is Mark Tarr, I'll tell you that all of our hospitals are very focused on making sure that the quality of our care delivered to our patients ends up with the vast majority of our patients going home are back to community. So we've paid a lot of attention to our ability to discharge home successfully and ultimately reduce the number of readmissions back to the acute care hospitals. So I think that we will fare very well in the future as acute care hospitals are reviewing their post-acute discharges and how many of those patients return back to those acute care hospitals.

<A – Jay Grinney – HealthSouth Corp.>: And that does play into what we have said all along, we think is a differentiator for us relative to skilled nursing facilities. And that is that our goal has always been and our track record has demonstrated that we execute against that in getting patients back into their homes.

And so I think it's reflective of the shift in our delivery system to what is commonly referred to as more value-based purchasing and I think everybody recognizes that historically the focus has been exclusively on per diem costs. And now we're seeing the system move slowly towards looking at things like readmission rates and total cost of care per episode not just on a per day basis. So I think this is early stages, but we definitely think that it sets us up very nicely for continued market share gains and continue to be attractive to discharge planners at the acute care hospitals.

<Q – Dana Nentin – Deutsche Bank Securities, Inc.>: Okay. Great. Thanks a lot.

Operator: Our next question comes from Matthew Gillmor of Robert Baird.

<Q – Matthew Gillmor – Robert W. Baird & Co., Inc. (Broker)>: Hey. Good morning, everyone.

<A – Jay Grinney – HealthSouth Corp.>: Good morning.

<Q – Matthew Gillmor – Robert W. Baird & Co., Inc. (Broker)>: Can you give us an update on TeamWorks and BEACON and are there any new areas of focus for both of those initiatives?

<A – Mark Tarr – HealthSouth Corp.>: Yeah. Hi. This is Mark. And our current TeamWorks initiative right now, which those of you that aren't familiar with TeamWorks that is our standardization process of which, we'll take a focus area in operations and then roll it out across our entire portfolio of hospitals.

Right now, our focus is on the patient experience, we're working collaboratively with our patient satisfaction vendor Press Ganey and rolling out standardized practices and protocols across our portfolio to make sure that we're maximizing our opportunities on the patient experience. The current rollout will be completed to all our hospitals by year-end and leading into expectations next year that we'll continue to see increases across our portfolio on total patient satisfaction scores.

<Q – Matthew Gillmor – Robert W. Baird & Co., Inc. (Broker)>: Okay. Great. And then second question, the Doug mentioned the increase in the backlog for medical necessity denials. Is there any opportunity to potentially accelerate that review process as the acute hospitals have settled or will settle a lot of those claims? Or is there an opportunity for the post-acute providers to enter into a similar settlement?

<A – Jay Grinney – HealthSouth Corp.>: No. I don't know, it will be successful, but we certainly are pushing for that. And again, we just don't know at this point. We would certainly hope that there would be an opportunity, but it's not anything that we can count on.

<Q – Matthew Gillmor – Robert W. Baird & Co., Inc. (Broker)>: Okay. Great. Thanks a lot.

Operator: Our next question comes from the line of Gary Lieberman of Wells Fargo.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Good morning. Thanks for taking my question. There's been a fair amount of acquisitions in a post-acute space and other perhaps acute sectors. Can you just update us on your thinking in terms of how you feel about your positioning in the broader post-acute space? And any changes in thoughts on potential other areas that you might want to get into?

<A – Jay Grinney – HealthSouth Corp.>: Sure. Our thinking hasn't changed. And just to summarize it; number one, we believe that we are very well positioned to continue to grow in the in-patient rehabilitation sector. We think that there is a lot of additional growth that is possible there, primarily driven by the aging of the population and the fact that we believe that there are a lot of joint venture opportunities based on our development pipeline, joint venture opportunities for us to exploit.

Having said that, we continue to believe that as the delivery system evolves into one characterized by more coordination of care, potentially more risk taking on behalf of the providers that there may be some benefit in expanding our service line offerings to include other post-acute services.

Within that context, we think the service line that makes the most sense would be home health or home care. And the reason we believe that is if we look far down the road in this evolving delivery system, we believe that a need will be there for patients who are being discharged from acute care hospitals to receive facility-based post-acute services, where there would be 24 hour, 7 day a week nursing care and a higher level of care, similar to what we provide in our rehabilitation hospitals, but not limited to what we provide in the rehabilitation hospitals.

In that new world order, we think that the facility based services would encompass services that are even today included in some of the skilled nursing, some of the higher needs orthopedic patients. So that would be one part of that continuum. And then we believe that in order to manage the patients' care in the most optimal way, having a facility-based presence in those markets – excuse me, a home-based presence in those markets would complement the facility base and would round out our ability to be attractive to the ACOs or other providers who might be participating in shared risk or coordinated care models.

So the thinking hasn't really changed, and it's predicated on the delivery system continuing to evolve, which we think it will. And in that evolving delivery system, having a facility-based post-acute presence and a home-based post-acute presence makes the most sense.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Thanks. And then maybe as a follow-up, have you seen any impact on the business from healthcare reform, obviously no real direct benefit like acute care hospitals, but have you seen anything tangential?

<A – Jay Grinney – HealthSouth Corp.>: No. The only thing that's been tangential has been a slight increase in our Medicaid patients. We have seen, in some states with the expansion of Medicaid and the increased number of lives included in Medicaid, we're seeing some more Medicaid patients in those markets. In, say, South Florida, we're seeing more Medicaid patients coming in as a result of Florida Medicaid going to a managed care product, and we have contracts with many of those payers. So we're seeing that benefit, if you will. And I think that that is a trend that we'll continue to see. I don't expect it to ever be a huge part of our business, but we are seeing a slight uptick in our Medicaid revenues.

<Q – Gary Lieberman – Wells Fargo Securities LLC>: Great. Thanks a lot.

Operator: Our next question comes from the line of Chad Vanacore of Stifel.

<Q – Chad Vanacore – Stifel, Nicolaus & Co., Inc.>: Hey, good morning.

<A – Jay Grinney – HealthSouth Corp.>: Good morning.

<Q – Chad Vanacore – Stifel, Nicolaus & Co., Inc.>: So it looks like you continue to generate a significant amount of free cash flow, aside from the expansions and investments you've already laid out, what'll be your preference for cash flow use, would that be deleveraging, share repurchase, increased dividend, or something else?

<A – Doug Coltharp – HealthSouth Corp.>: It's Doug. I think, the story on the free cash flow utilization really hasn't changed from our previous discussions this year and that is that, one, on the delevering side, we certainly don't feel the need to delever any further. As we've suggested, we think that the appropriate run rate in terms of leverage for this business is at or below three times; when you adjust our third quarter balance sheet for that timing difference I referenced in my remarks, just the fact that we had raised some debt and then used it to pay off the 2018 senior note on the first day of the quarter, we're well within our leverage target. And given the structure of our debt capital, we don't feel the need to proactively reduce the leverage.

And so that means we'll continue to look at the array of opportunities that we have thus far in terms of the deployment of the free cash flow. The highest priority is given to the high-quality growth opportunities that exist within the ERF space, as Jay mentioned just a moment ago, based on demographic trends and what we're seeing in our development pipeline, we feel good about that. I think the fruits of our labor are coming to bear in the fourth quarter, when you look at the significant capacity expansions that are coming online, and we're opportunistic – we're excited about the continued growth opportunities in 2015 and beyond.

We did increase our common dividend, effective with the payment made in the third quarter. So continuing to look at the appropriate yield that the dividend represents on our common stock is a consideration, and we've opportunistically repurchased some shares during the course of the year as well, all of those things will continue to remain on the table.

<Q – Chad Vanacore – Stifel, Nicolaus & Co., Inc.>: All right. That's it for me. Thanks.

Operator: Our next question comes from Frank Morgan of RBC Capital Markets.

<A – Jay Grinney – HealthSouth Corp.>: Good morning, Frank.

<Q – Frank Morgan – RBC Capital Markets LLC>: Good morning. Jay, just hoping you could give us some comments and thoughts about what you're paying attention to in DC from a regulatory, from a payment standpoint, are there any particulars issues out there right now that you're most acutely attentive to?

<A – Jay Grinney – HealthSouth Corp.>: There's nothing new. With the passage of the IMPACT Act, I think a marker is out there for moving post-acute payments to something that is, I guess, more site-neutral in nature, although I think the timing of that and what that looks like is still up in the air. I don't think that that's going to be anything that will impact our business anytime soon.

However, as we have said in the past, we believe that is an opportunity for us, because we do believe that we can provide a wide range of services, rehabilitative services on an inpatient basis to [audio gap] (31:10) today we're limited by the 60% rule and other regulatory constraints. And presumably in a more site-neutral payment environment many of those constraints would be eliminated or obviated and that's something that we are paying attention to and we're looking at frankly quite favorably.

Beyond that, there really isn't anything that we're hearing that is percolating at the moment. I think it's clear that the mid-term elections will dictate what kind of effort next year will be directed towards the debt ceiling, there will be the doc fix and I think all providers will need to be attentive to that process whether or not anything ultimately comes of it. Of course there is a function of what can be passed through Congress and then ultimately what could be signed by the President.

So nothing new at this point. It's really a lot of the same issues that have always been out there, the only thing that I think has been taken off the table with respect to any immediate issue or concern will be the site neutral payment and, again, I see that more playing out over the next several years, probably five years at least, with the passage of the IMPACT Act. And again we see that as a positive move.

<Q – Frank Morgan – RBC Capital Markets LLC>: Okay. Thanks. One more and I'll hop. Obviously, a really good job [audio gap] (32:49), very consistent volume growth and you have been able to leverage that in your margins. Given where we are with volume growth today, are there any other remaining drivers or incremental drivers to cost efficiencies that you're looking at or do you feel like you've pretty much got the business tuned as efficiently as you can? Thanks.

<A – Jay Grinney – HealthSouth Corp.>: Well, there are always opportunities as we bring on incremental volume to do that in a disciplined way. I think as we look down the road, there may be a need for frankly adding additional cost to our operating platform. And a lot of that is going to be driven by regulatory requirements.

For example, I think as everybody knows with the final rule for 2015, inpatient rehabilitation hospitals are now going to be held accountable for accuracy and completeness of recording the various quality metrics. And there is a penalty associated with that. So that's new for us. We haven't seen that in the past and we haven't had to deal with that in the past. So there may be some incremental expenses at the hospital level that we will actually chose to invest in in order to ensure that the compliance is accurate and complete. But the real issue, Frank, is going to be continuing to grow market share and to do that in a highly disciplined manner.

<Q – Frank Morgan – RBC Capital Markets LLC>: Okay. Thanks.

Operator: Our next question comes from the line of Kevin Fischbeck of Bank of America.

<A – Jay Grinney – HealthSouth Corp.>: Good morning, Kevin.

<Q – Joanna Gajuk – Bank of America Merrill Lynch>: Hi, Good morning. Actually this Joanna Gajuk filling in for Kevin today.

<A – Jay Grinney – HealthSouth Corp.>: Good morning, Joanna.

<Q – Joanna Gajuk – Bank of America Merrill Lynch>: Thank you for taking the question. Good morning. Just quickly, I guess on the comment you made around closing the SNF beds, the impact on volumes. So can you just expand on the reason for the closure and also whether you have more sort of SNF beds that you're planning to close that are still in your portfolio?

<A – Jay Grinney – HealthSouth Corp.>: No, we don't have any other SNF beds to close. Those were the final ones and it was really just a matter of economics. We were not making money on those SNF beds and we just felt that it made more sense to close them. We did so, and as I think we've reported over the last couple of years, we've had – I think at one point, we had over 100 SNF beds in our portfolio and over the years we've been closing them as we could and we closed the last ones then in June.

<Q – Joanna Gajuk – Bank of America Merrill Lynch>: Great. And then on the clinical information system, so I guess a comment was made that now its implementation is complete in 56 hospitals. So I guess it's moving along there, and is there any color you can give us in terms of any operational benefits you've already sort of seen from implementation of the system there or do you expect going forward, maybe?

<A – Mark Tarr – HealthSouth Corp.>: Yeah. Well, first of all, the implementation has gone extremely smooth. As Doug noted, it's now in 56 of our hospitals. I think it's a little bit early to start determining whether or not we're getting measurable benefits. We would expect benefits in the future as we get it out to a larger percentage of our portfolio; we're schedule right now to have the rollout completed the first half of 2017. Ultimately, we should be able to start drawing from all the data that we can capture from the – electronically from the system and begin to apply that to best practices and clinical protocols. But at this point, it would be a bit premature to start talking about the trends that we're seeing if any.

<Q – Joanna Gajuk – Bank of America Merrill Lynch>: Thank you.

Operator: [Operator Instructions] Our next question comes from the line of Murali Ganti of Citigroup.

<Q – Murali Ganti – Citigroup>: Hi, good morning. So a quick question, you've provided a lot of detail on your debt transactions, and I just have a specific question, with your announcement yesterday, the redemption of 10% of the outstanding amount of the 7.75% due 2022, is that the final redemption you can make at 103% prior to the first call next year, assuming you're going to exercise the call or could you do another 10% redemption next calendar year?

<A – Doug Coltharp – HealthSouth Corp.>: No, that's the last 10% option.

<Q – Murali Ganti – Citigroup>: That is. Okay. Thank you.

<A – Doug Coltharp – HealthSouth Corp.>: And then the notes will be fully callable next year.

<Q – Murali Ganti – Citigroup>: Next year, correct, on 9/2015. Okay. thank you.

Operator: I'm showing there are no further questions at this time. I'd now like to turn the floor back over to Mary Ann Arico for any closing remarks.

Mary Ann Arico, Chief Investor Relations Officer

Thank you, Maria. As a reminder, we will be filing the updated Investor Reference Book in mid-November. If you have additional questions, please feel free to call me later today at 205-969-6175. Thank you. That concludes our call.

Operator: Thank you. This concludes today's conference call. You may now disconnect. And have a wonderful day.

Jay F. Grinney, President, Chief Executive Officer & Director

Thank you, operator.