Operator: Good morning, everyone, and welcome to HealthSouth's Fourth Quarter 2010 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]

Today's conference call is being recorded. If you have any objections, you may disconnect at this time. I would now like to turn the call over to Doug Coltharp, Executive Vice President and Chief Financial Officer. Please go ahead, sir.

Doug Coltharp, Executive Vice President and Chief Financial Officer

Thank you, Wes, and good morning, everyone. We appreciate you joining us this morning for the HealthSouth fourth quarter 2010 earnings call.

I'm pinch-hitting for Mary Ann Arico on the call today. Mary Ann is with us today, but has been battling a head cold, which she feared would negatively impact her typically mellifluous voice.

With me on the call today are Jay Grinney, our President and Chief Executive Officer; Mark Tarr, Executive Vice President of Operations; John Whittington, our Executive Vice President, General Counsel and Secretary; Andy Price, Senior Vice President, Chief Accounting Officer; Ed Fay, Senior Vice President and Treasurer; Julie Duck, our Vice President of Financial Operations, and of course Mary Ann.

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

Moving to slide one, the Safe Harbor. During the call, we will make forward-looking statements, which are subject to risk and uncertainties, many of which are beyond our control. Certain risk, 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 Form 10-K for the year end 2010, which will be filed next week, and it's previously filed Form 10-Q for the first, second and third quarters of 2010, the Form 10-K for 2009 and other 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 to allow everyone to submit a question.

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

Jay Grinney, President and Chief Executive Officer

Great. Thank you, Doug, and good morning, everyone.

The fourth quarter was a strong finish to another excellent year for HealthSouth. Discharges grew significantly both sequentially and quarter-over-quarter, which when coupled with good pricing helped generate 7% top-line growth. Our hospital management teams did an outstanding job of providing care to these additional patients in a highly efficient manner.

Our cash flow remains strong, and we posted solid quarter-over-quarter growth in both adjusted EBITDA and adjusted earnings per share. We have a lot to review with you today, but before I turn the agenda back to Doug, I'd like to touch on some of the quarter's highlights.

A key highlight was the rebound in discharges. When we hosted our third quarter call, we were fairly confident the quarter would be better, because we were seeing an increase in discharges at many of our referral hospitals, but we were pleasantly surprised by the significant improvement of our newer hospitals. Same-store discharges increased 2.9%, and all of our new hospitals exhibited strong growth lifting total discharge growth to 5.3%.

We recently received the fourth quarter UDS report, which indicates discharges from non-HealthSouth hospitals declined two-tenths of a percent in the quarter, implying continued market share gains for HealthSouth hospitals. While it's too early to know if this signals a permanent shift, we are pleased with our census thus far in the quarter. Obviously, we're only halfway through the quarter, and it's too early to know if this will continue, but we are off to a good start.

Our cash flow also was a highlight of the quarter as it has been all year. Cash flow from operations was $67.1 million in the quarter, up from $44.0 million last year, while for the year, adjusted free cash flow was $197.7 million, up 13.9%.

We also were very pleased that we realized our interim leverage goals significantly ahead of schedule. When we began our first year of operations as a pure-play post-acute company in 2008, our leverage ratio was 6.3 times. We identified debt repayment and deleveraging as a primary strategic objective and said we would reduce this to 3.5 times by the end of 2012. We subsequently said, we thought we could achieve this by the end of 2011, and are now pleased to report this milestone has been reached at the end of 2010.

Finally, we were able to release a significant portion of the valuation allowance against our deferred tax assets. Not only does this underscore the positive outlook for the company going forward, but importantly it reduces our shareholders' deficit to a mere $2.2 million, compared to a deficit of $897.6 million at the end of last year, and positions the company to build positive shareholder equity going forward. As a shareholder of HealthSouth, this feels pretty good.

While I've only highlighted certain achievements, we are extremely pleased with all that we've accomplished in 2010. The discipline and focus we've applied to the execution of our business model has yielded solid and consistent results. And as we'll discuss later, we expect continued growth in 2011.

With that, I'm going to turn the agenda over to Doug Coltharp, our Executive Vice President and Chief Financial Officer.

Doug Coltharp, Executive Vice President and Chief Financial Officer

Thank you, Jay, and good morning again, everyone.

Now, I get to speak in my own voice. I will attempt to provide some further detail on our operating performance for the fourth quarter and for the full year 2010, and I'll also spend some time walking you through the release of the substantial portion of the valuation allowances against our deferred tax assets, which was highlighted in our press release in which Jay mentioned.

As Jay summarized, we had a very good quarter, which capped a solid 2010. Our consolidated net revenues for the fourth quarter grew by 7.1% to 520.7 million, driven by 5.3% increase in discharges, and a 2.5% increase in net patient revenue per discharge. The discharge growth included a 2.9%

same-store increase with the balance coming from our new hospitals. The increase in net patient revenue per discharge was primarily due to improved pricing from both Medicare and managed care payors.

The fourth quarter also benefited from favorable expense trends. SWB for the quarter was 48.5% of net revenues, a 160 basis point improvement over the same period last year. The majority of the year-over-year improvement related to enhanced labor productivity across our hospitals and increasing occupancy levels at our new hospitals. Approximately, 60 basis points of the SWB improvement resulted from a favorable $3.3 million adjustment to our workers' compensation reserve.

Our hospital-related expenses for the quarter were 23.4% of net revenues and improvement of a 110 basis points over Q4 2009. The improvement was a driven by decline in bad debt expense to 0.3% of net revenues from 1.6% last year, offset by an increase in our professional and general liability self-insurance costs.

These are two line items that we have discussed frequently during our recent quarterly calls, and I'd like to spend a moment elaborating on the trends and our future expectations for each. We are fortunate that based on our payor mix and the patients we treat, bad debt expense is a relatively small component of our overall expense base. The volatility we have experienced in this line item relates primarily to the on-again, off-again nature of medical necessity claims reviews by our largest fiscal intermediary. We have only recently seen a resumption in medical necessity claims reviews.

During 2010, we were able to successfully adjudicate previously denied claims, resulting in a recovery of prior period bad debt reserves. The inventory of prior period claims still in the adjudication process has been substantially reduced, indicating that the continuation of prior period recoveries as an offset to bad debt will be greatly diminished in 2011.

Another factor contributing to lower bad debt expense in 2010 was an increase in our Medicare bad debt recoveries. The increase stemmed from process improvements we have made throughout the billing and collection cycle. The inventory here has also substantially depleted again indicating that the presence of this factor as an offset to bad debt expense will be greatly reduced in 2011.

The diminished pool of prior period write-offs available for recovery and the resumption of the medical necessity claims reviews lead us to believe that our bad debt expense in 2011 will be more in line with historical levels at approximately 1.5% of net revenues.

Let's turn for a moment now to professional and general liability insurance expenses. Based on the December semi-annual actuarial assessment, in Q4 we added $4.6 million to a professional and general liability insurance reserve. We believe we are adequately reserved against open claims periods. However, we do expect some amount of the increased expense in this area to continue into the future.

The growth in our revenues combined with the expense trends we just discussed, produced adjusted EBITDA of $116.8 million for the fourth quarter. That represents an increase of 23.3% over the same period last year. For the full year of 2010, adjusted EBITDA rose by 11.6% to $427.4 million. These results exceed the updated guidance we provided in early January of this year. As we stated at the time the updated guidance was provided, we were then still very early in the process of closing our year-end books. The culmination of that process resulted in favorable adjustments to workers' compensation and bad debt reserves.

As expected, interest expense for Q4 increased by $3.7 million, primarily as a result of the refinancing activity completed early in the quarter. Also as expected and as previously disclosed, the refinancing activity triggered a loss on extinguishment of debt of $11.9 million. We have entered 2011 with an interest expense run rate approximately $4 million per quarter higher than that which existed at the beginning of 2010 solely due to the improvements we made in our capital structure in the fourth quarter.

A key objective of those refinancing activities was to create a clear path to repaying or refinancing at least a portion of the 10.75% senior notes when the call protection on those notes begins to lapse in June of this year. Doing so remains a priority for our company. Obviously, any activity around the 10.75% notes would serve to reduce interest expense, and would be accompanied by a loss on the extinguishment of debt. The effect of these two items has not been included in our 2011 EPS guidance.

Continuing through the P&L for the quarter, depreciation expense increased by $2 million in Q4 over the same period last year, and rose by $5.5 million in 2010 over 2009 largely owing to our increased investment in growth initiatives. We are anticipating a similar year-over-year increase in depreciation expense for 2011.

For 2010, our capital expenditures including acquisitions totaled approximately $105 million with roughly $65 million related to growth initiatives and the balance in the form of maintenance CapEx.

Adjusted EPS for Q4 increased by 68.2% over the same period last year to $0.37 a share. Both periods were impacted by a loss on extinguishment of debt. For the full year 2010, adjusted EPS rose 18.6% over 2009 to $1.72 a share.

Let's talk about cash flow now, which as Jay commented on was a highlight for both the quarter and the year. Our adjusted free cash flow for Q4 was $31.1 million versus $10 million in Q4 2009. The year-over-year increase in adjusted EBITDA and improvements in net working capital, predominantly, accounts receivable contributed to the higher level of adjusted free cash flow in Q4 2010.

There are two other items worth noting. First, as part of the refinancing completed during the fourth quarter, we replaced floating rate term loans subject to quarterly interest payments with fixed-rate senior notes subject to the semi-annual coupon payments. Based on the timing of the interest due dates, we paid approximately $15 million more in cash interest expense in Q4 of 2009 than Q4 2010.

Partially offsetting this positive impact on Q4 adjusted free cash flow and again as previously disclosed, as part of our refinancing, we elected to terminate two forward starting interest rate swaps resulting in termination fees of $6.9 million. Those fees were treated as a negative operating cash flow item in Q4 2010.

For 2010, adjusted free cash flow was $197.7 million, an increase of nearly 14% over 2009. We have stated that our business model should produce an adjusted free cash flow CAGR of 12% to 17% over time. Our current expectation is that 2011 will be on the low end of that range.

On the positive side of ledger, we continue to expect growth in adjusted EBITDA, and we'll make the final payment on our interest rate swaps in March of this year. Weighing against those positive factors are the current run rate of interest expense and expected increase in net working capital and approximately $20 million in incremental maintenance capital expenditures primarily related to two large hospital refurbishment projects.

As was the case in 2010, adjusted free cash flow in 2011 will be focused on further delevering as well as the pursuit of growth initiatives within the IRF sector. We do not view these initiatives as mutually exclusive, and the allocation between these alternatives will be primarily driven by economic considerations.

Moving to the balance sheet, the year-over-year growth in adjusted EBITDA combined with a further $151 million reduction in debt resulted in the year end leverage ratio of 3.5 times. And as Jay mentioned, we thus achieved our 2011 target a full year early. Delevering the balance sheet remains a priority for HealthSouth with an ultimate objective of less than three times. The 10.75% senior notes are our most attractive debt repayment opportunity, and the initial call date on those notes occurs in June of this year, at an initial premium of 105.375%.

We believe we have several viable sources for repaying or refinancing these notes, including cash flow from operations, excess capacity under our revolving credit facility, and the potential issuance of new senior notes. We have not yet determined the timing, magnitude or composition of any take-out strategy for these notes. This is a topic we'll be talking much more about as the year progresses.

Let's now spend a few moments discussing the release of a substantial portion of the valuation allowance that has served as an offset to our deferred tax assets.

Prior to year end 2010, the vast majority of our deferred tax assets were offset by a valuation allowance. The valuation allowance was created, because up to this point, our company did not have a sufficient history of profitable operations, a sufficient forecast of future profitability, or tax planning strategies in place to suggest it was more likely than not we would be able to fully utilize the deferred tax assets.

For the past several years, our reported provision for income taxes reflected only the cash taxes we were required to pay, and the deferred tax asset corresponding valuation allowance were reduced in lockstep.

Our solid results for 2010 provided us with positive evidence of historical profitability on a three-year look-back basis. This evidence combined with our updated forecast for future profitability and an assessment of our tax planning strategies, tipped the scales to a more likely than not determination regarding our ability to use a substantial portion of our deferred tax assets.

With this determination, we removed a substantial portion of the valuation allowance during the fourth quarter. This release generated the majority of the approximately $736 million tax benefit included in our reported provision for income taxes for the fourth quarter of 2010. This was a non-cash item. Our actual cash taxes for 2010 were $8.3 million. As Jay mentioned, the inclusion of this substantial tax benefit also had the effect of reducing our shareholders' deficit at year end to $2.2 million.

One of the implications of the valuation allowance release is our transition of EPS guidance away from the adjusted EPS measure we have historically used to a GAAP measure. Our definition of adjusted EPS includes cash taxes. Prior to the release of the valuation allowance, cash taxes closely tracked a reported provision for income taxes. Following the release of much of the valuation allowance, our cash taxes are expected to remain at approximately $6 to $8 million per annum, but our reported provision for income taxes will now reflect an effective tax rate of approximately 40%.

Additionally, most of the other line items that had served as a bridge between adjusted and GAAP EPS, as an example professional fees, are expected to completely runoff or significantly diminish through the course of 2011. To ensure that the readers of our financial reports continue to have adequate insight into the factors impacting our financial performance, our quarterly reporting will include the disclosure expressed in the nominal dollar and EPS terms of items such as non-cash income taxes, professional fees and loss on extinguishment of debt. A reconciliation between adjusted EPS and the GAAP EPS measure is included both as an attachment to yesterday's press release and as page 25 in the supplemental slides.

And with that, I'll turn it back to Jay.

Jay Grinney, President and Chief Executive Officer

Great. Thank you, Doug.

Before we take questions, I'd like to briefly comment on the status of the E&Y arbitration and we'll then discuss 2011 guidance.

As we've stated previously, we are limited in what we can say about these proceedings. The rules of the American Arbitration Association require that all aspects of the arbitration remain confidential. What we can say is while the proceedings are moving forward, scheduling conflicts continue to arise, which makes getting this result in the first half of 2011 less likely.

Although we remain confident in our claims and are asserting them forcefully, the timing of getting this important matter resolved is extremely difficult if not impossible to predict. The good news is nothing in our business plan is predicated on getting a settlement by a specific date. As we have stated many times in the past, whatever we get and whenever we get it will merely accelerate the execution of our plan.

Now, let's discuss guidance. I'll begin with some of the assumptions we've incorporated into our adjusted EBITDA guidance for 2011. By focusing on organic growth, we believe we can increase the number of discharges from our hospitals by between 2.5% to 3.5%. Any acquisitions would come in on top of this range. From a pricing standpoint, we are including an estimated fourth quarter Medicare market basket update of 2.5%, reduced by 10 basis points as mandated by healthcare reform and an estimated productivity adjustment of a 100 basis points.

Outpatient revenues will be negatively impacted by approximately $1.4 million due to the changes in reimbursement from multiple therapies. From an expense standpoint, we anticipate modest productivity improvements even as we rollout our care management TeamWorks initiative and pilot the electronic clinical information system at two new hospitals.

As Doug mentioned, we expect our bad debt expense to return to historic levels now that we've seen a resumption of medical necessity claim denials that have to be adjudicated.

With these assumptions in mind, we're estimating 2011 adjusted EBITDA will be between $440 million and $450 million. This represents growth of 2.9% to 5.3% over our 2010 as reported adjusted EBITDA and growth of 5.8% to 8.2% if 2010 bad debts had been at our historic level of 1.5% of net revenues. The major factor influencing sensitivity within this range is volume. At 2.5% discharge growth, we'll be closer to the $440 million at 3.5%, we're closer to the $450 million.

Doug laid much of the ground work for the EPS discussion, but if you turn to page 25 of supplemental slides I think you will find it to be helpful as we talk about our new GAAP EPS measure. The far left column depicts how starting with adjusted EBITDA, we calculated our adjusted EPS of $1.72 per share. After deducting interest expense, depreciation, stock-based compensation and loss on the disposal of assets from adjusted EBITDA. We also deducted $12.3 million for the loss in the early extinguishment of debt, and $8.3 million for cash taxes to arrive at the adjusted income from continuing operations of $186.4 million.

As we moved to a GAAP EPS measure, we'll be deducting additional items from adjusted EBITDA. The second column titled "GAAP EPS measure actual 2010" lists these non-recurring items that would have been deleted had we used the GAAP measure in 2010.

The last two columns provide some assumptions for 2011. Below the EBITDA line, we're anticipating higher interest expense of approximately $4 million per quarter due to the recent refinancings, approximately $5.5 million more of annual depreciation expense as a result of the growth capital we've invested in prior periods, and a slight uptick in stock-based compensation expense.

Professional fees primarily associated with the E&Y arbitration are estimated to be approximately $14 million. Additionally, as a result of the reduction of a substantial portion of the valuation allowance, we will be including an assumed tax provision of 40%.

With these in mind, our GAAP earnings per share from continuing operations is expected to be between $1.01 and a $1.06 per diluted share. And as Doug has noted, we have not included any debt repayment assumptions in our guidance, although, paying down the 10.75% remain a top priority.

As pleased as we are with the results of 2010, we're even more excited about the prospects for 2011. We're off to a good start and expect discharge growth and disciplined expense management to generate another year of solid adjusted EBITDA growth. We expect adjusted free cash flow to remain strong, which will provide cash to fund our growth initiatives and help repay our most expensive debt. And we'll be building positive shareholder equity for the first time in a very long time.

With that operator, we'll be very happy to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Ann Hynes of Caris and Company.

<Q – Ann Hynes>: Thank you. Good morning.

<A – Jay Grinney>: Good morning, Ann.

<Q – Ann Hynes>: I just have one clarification before I ask my question about adjusted EBITDA. So the professional fees is not in the 2011 adjusted EBITDA guidance, or is it? That $18 million that's going to be in GAAP EPS?

<A – Doug Coltharp>: Right. It's included in the EPS line...

<Q – Ann Hynes>: Yeah.

<A – Doug Coltharp>: It is not included in adjusted EBITDA. There has been no change to the definition of adjusted EBITDA.

<Q – Ann Hynes>: All right. So we are on the same board, do you recommend that the analysts have two EPS numbers out there, still the adjusted diluted EPS and the GAAP EPS?

<A – Doug Coltharp>: We are pointing you solely to the reported GAAP EPS number.

<Q – Ann Hynes>: Okay. So, it's just...

<A – Jay Grinney>: So, Ann, there – hey, excuse me, Ann.

<Q – Ann Hynes>: Yeah.

<A – Jay Grinney>: I mean, part of this is trying to help get a little more clarity. I know that may sound a little bit strange, because there is some noise around this, this change, but we do believe that by making this, we're going to be able to eliminate the wide variation in some of the analysts' EPS forecasts. So we're trying to do it one-time, and what we'll see is while this may be a little bit lumpy from 2012 on, it's going to be so much cleaner.

<Q – Ann Hynes>: Yeah, okay. So my question has to do with adjusted EBITDA. If I look at Q4, obviously that was very strong. But if I add back in that $3.3 million worker reserve and if I normalize bad debt to that 1.5% of revenue, your adjusted – or your EBITDA growth was still very strong at 14%. And then, if you look at your 2011 guidance, adding back the bad debt, I think it was around like 6% to 8% or 6% to 9%. So I guess going to 2011 from kind of Q4 and with the acquisitions that adding, why wouldn't you be able to maintain that level of growth? What else is happening in 2011 that we should consider in our models?

<A – Jay Grinney>: I think the main thing to keep in mind is that, we're coming off of a difficult year in the industry, and we certainly saw some lumpiness in our discharges in the first three quarters. But we're really not sure, frankly, whether or not what we saw in the fourth quarter, and frankly what we're seeing in the first six weeks of the year is going to be sustainable, and if we're going back to what might be considered somewhat historic levels of patient activity. So that's clearly one of the issues that is causing us to be a little bit tempered in our guidance and in our forecasting.

<A – Doug Coltharp>: I think if you look at 2010 and as you were suggesting make some allowance for a more normalized level of bad debt, and then look at the cost of our self-insurance programs in aggregate where there were some puts and takes positives on the workers' compensation part, negatives on the general and professional liability, if you adjust and get to a base level incorporating those factors, then the growth that we put out there for 2011 is very consistent with the range that we consistently cited as part of our business model and there is the potential for acquisition during the course of the year to be incremental to that.

Operator: Your next question comes from Darren Lehrich of Deutsche Bank.

<Q – Darren Lehrich>: Thanks. Good morning, everybody, and congrats for getting the equity book value to the current position that it's in, that's a big milestone for you guys.

I wanted to just clarify something, Doug. Can you remind us the intervals that you have for your actuarial reviews. I just want to make sure we know sort of where that is, and then I do have a bigger picture question about volume?

<A – Doug Coltharp>: Yeah, we do an actuarial assessment for the GPL reserve in June, and in December of each year.

<Q – Darren Lehrich>: Okay.

<A – Doug Coltharp>: And I'll remind you that, in June, it's part of our second quarter report, we posted an incremental $2.9 million for that reserve and then $4.6 million as part of the December review.

<Q – Darren Lehrich>: Okay. And the run rate for professional liability expense in just dollar terms, what was it exiting the year?

<A – Doug Coltharp>: It's again, you had a couple of different things going on, if you recall back in the second quarter as well, we posted $4.6 million for a specific piece of litigation.

<Q – Darren Lehrich>: Right.

<A – Doug Coltharp>: So it depends on how you want to look at the overall cost. In general, I would suggest that – or let me say that – I'd say the run rate was approximately $14 million in terms of the aggregate expense there.

<Q – Darren Lehrich>: Okay, right. And then, Jay, I guess my bigger question here is just around volume. Obviously, a big uptick in Q4, and you've had a little bit more time, hopefully to assess where the strengths were in your business and across your portfolio.

Can you just maybe shed a little more light on what you are seeing and where you think your market share gains have been the most persistent? And just any commentary to help put that strength into perspective?

<A – Jay Grinney>: Sure. In the quarter, we saw a nice improvement across every single region. As we had said throughout the first three quarters of 2010, we had some issues in Texas with some changes in leadership; we had a new Regional President there; we saw that region come on strong in the fourth quarter. Across the other regions, we felt very good about the growth that we're seeing.

It's very hard to know with precision where we're taking that share from, because as you know, there is no specific requirement that a given patient has to go to a rehab hospital or has to go to a skilled nursing – it's really a matter of judgment on the part of the physician and the case manager.

What we do know is that those gains are occurring primarily in the areas of neurological conditions. We saw an uptick in both traumatic and non-traumatic brain injuries. We saw an uptick in the quarter in the category called other orthopedic, which is essentially everything other than the lower extremity joint replacements and the hip replacements.

So we're seeing a sicker patient; we're seeing a more medically complex patient. That would suggest to us that we're taking market share from other rehabilitation providers, but we are also probably seeing some patients that might otherwise have gone to a skilled nursing facility in the past, but because of the complexity of their medical condition, they're being referred to a rehabilitation hospital.

<A – Doug Coltharp>: And let me correct or clarify the response that I had given, Darren previously on the GPL. I think I had suggested that $14 million was the current run rate on GPL expense. $14 million is the year-over-year increment that we experienced in 2010 in the cost of that program.

Operator: And your next question comes from Whit Mayo of Robert Baird.

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

<Q – Whit Mayo>: Thanks. Good morning. Jay, just for the record, I really do like the new guidance.

<A – Jay Grinney>: Okay.

<Q – Whit Mayo>: Just, my first question is you guys have just absolutely hammered out -

<A – Jay Grinney>: Whit -

<Q – Whit Mayo>: ...hello?

<A – Jay Grinney>: Say that again – I'm sorry.

<Q – Whit Mayo>: I'm sorry, I was just – my question was that you guys have really pulled out a lot of costs out of the company for the past two years, and was just kind of hoping that you could elaborate more on the productivity opportunities whether or not you're close to bottoming out on EPOB, and just maybe from a personnel and staffing perspective, just have you extracted all you can or what are the opportunities going forward?

<A – Jay Grinney>: Well, that's a great question. There are always going to be opportunities to improve productivity. I certainly believe that a lot of the so-called low-hanging fruit has been extracted over the last several years.

But as you know, we've installed the labor productivity system. We've enhanced that system with an overarching management reporting system that we call Beacon, and which we highlighted at the Investor Day last November. And those additional management tools give us the opportunity to fine-tune our productivity initiatives.

So will there be continued improvement? Yes. Do we see the large magnitudes of improvement? No, frankly, we don't expect that. But we were always going to be striving for ways to improve the overall productivity of our employees. One of the things we're going to be doing this year is looking at that productivity measure in conjunction with the outcomes, patient satisfaction, quality measures and blending them more tightly together.

And so, it's going to be an interesting dynamic for us as we go through this year, and into next to try to find a balance where we can optimize both the productivity and continue to optimize our quality and our outcomes, because we believe ultimately that's what's going to define our success.

It really is going to be either in a bundled – an ACO environment or just continuing to move down the path that we are on right now. We are going to differentiate ourselves and be successful to the extent that we can continue to be out in front in terms of patient satisfaction, and in terms of clinical outcomes.

So is there – are there productivity improvements? Yes. We're going to be seeing those I think, though, more kind of at the margin. And then over time, we're going to be blending and really putting more of a focus on making sure that the outcomes are being optimized at the same time that we're optimizing our productivity.

<Q – Whit Mayo>: That's helpful. And I think it is pretty important that your quality has continued to improve while your productivity has as well.

And the second question I had is just maybe back to the clinical IT investment that you can sort of – you talked about it at the Analyst Day. And just kind of looking for an update on maybe how many conversions you've completed to this point, and what the feedback has been. And maybe, Jay, if you could talk about whether or not your worry level about some of the disruption about those implementations has moved higher at this point?

<A – Jay Grinney>: The worry level has not moved higher. Where we are is we've completed the pilot at our Northern Virginia hospital. And in 2011, we will pilot that at two additional hospitals – potentially three, but definitely two – to get renewed sense of confidence that we can roll this out and do so with minimal disruption.

So the big push, if you will, to begin the rollout across the entire portfolio really won't start until sometime in 2012. We obviously are keeping the Board very apprised of this initiative and the results. We are going to be reviewing that again next week at our Board meeting.

So right now, we still feel very good about the prospects of having an electronic clinical information system in all of our hospitals at some point in the future, but we are not doing the widespread implementation in '11. That will start in 2012.

Operator: Your next question comes from Adam Feinstein of Barclays Capital.

<Q – Adam Feinstein>: Yeah, thank you. Good morning, everyone.

<A – Doug Coltharp>: Hey Adam. How are you?

<Q – Adam Feinstein>: Doing well. Good way to start the day here with a good number. Just, I guess wanted to ask – I mean, Jay, you were very clear at the Analyst Day in terms of kind of taking a wait-and-see approach in terms of acquisitions, and focusing instead in terms of using free cash to pay down the 10.75% notes over time. And then just seeing how the regulatory environment plays out.

But we've seen some recent deal activity. Kindred buying RehabCare Group. So just wanted to get your updated thoughts. I think I know what the answer is, but certainly just with, it seems like, more stuff on the market, just curious to get your updated thoughts there?

<A – Jay Grinney>: I don't know that I would characterize it as wait-and-see as much as I would that – wait and let's do it right.

Doing an acquisition or securing an acquisition is actually I think relatively easy. And especially today, you look at some of the leverage levels that are being put on some of these acquisitions, and some of the conditions or lack thereof on the financing, and there are some of us, I am one of them, who is wondering if anybody remembers back more than two weeks ago. I mean it's incredible to me to see the level of activity. And our belief is that acquisitions need to be strategic. They need to be in line with the overall strategy of the company.

And our strategy has been to view healthcare services on a market-by-market basis. It really doesn't help us to go out and buy a complementary service and give us that – give us a new presence – say in North Dakota – and have that be the only service that we're offering in North Dakota, where we could otherwise be looking to provide that same service in Alabama or Florida or Texas or Pennsylvania.

So we're still going to be opportunistic. I mean we're always going to be out looking and making sure that we're carefully evaluating what those opportunities are. But as you know, there is going to be some headwinds for some of these services. And so do you want to buy into that risk or not?

So there is a lot of activity. We're very aware of that. We've had more visits from investment bankers in the last month than I think we have in all of 2010. And we're always going to listen, but we're also going to be very, very disciplined.

Because as you know, I mean, look at the industry. How many acquisitions have occurred in the last several years, where there has been euphoria over the acquisition and prices run up and everybody feels good for the first, maybe two or three months. And then a year later, when the reality of integrating starts to be under the microscope, and results start to matter, and whether or not these are truly accretive as opposed to supposedly accretive.

I mean that's really where we're looking. We're not concerned about what is it do for the stock price this quarter. We're much more concerned about what would an acquisition do for the company in a year from now, three years from now, five years from now.

<Q – Adam Feinstein>: Okay. And just a quick follow-up, and it's the same thought process in terms of how you are going to use your free cash flow.

So clearly, you spent a lot of time at the Analyst Day talking about this and even earlier, you guys mentioned it. But just in terms of paying down the 10.75% notes, I know you don't have a definitive plan outlined.

But why not include something in the guidance? I mean, it seems like just the opportunity there just seems like an easy way to add to earnings. So just in terms of thinking about a partial year impact, just curious in terms of just the thought in terms of not including some portion of that in the guidance.

<A – Doug Coltharp>: Adam, it's a very valid question. It's one that we've wrestled with for some time over here, because it's clearly our intent to do something against the 10.75%, and realize the resulting interest benefit.

What we were guarding against by not including it in the base case guidance was putting out something that might even be a very hypothetical base case, and then because of shifts in market condition or whatever, we choose not to execute exactly to that hypothetical strategy, but we spend the rest of 2011 trying to reconcile the investment community back to the subjunctive case that we had thrown out there.

So we felt that in terms of establishing a base case, it was better to say this is the run rate of interest as we entered 2011. That's what's included in our number. We've told you a little bit about the switches that we had to toggle in order to address the 10.75%. And as we get close to that date, we'll be giving you the specific pieces.

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

<Q – Frank G. Morgan>: Good morning, good quarter.

<A – Jay Grinney>: Thank you, Frank.

<Q – Frank G. Morgan>: Jay, you had mentioned the quarter you're off to a good start so far in first quarter and on the volume side. And I was curious if you could comment a little bit about, is that being more driven off the same-store portfolio, or is it more of that continued growth in these newer facilities that have come online?

<A – Jay Grinney>: It's really inappropriate for us to talk about any details of the quarter right now. I've got a lot of people around the table, shaking their head, basically helping me to toe the line.

So we'll get a little bit further into the quarter, and then we'll be able to talk about that. But I do think reiterating what I said before we are pleased. We feel we're off to a good start.

So the fourth quarter was a good quarter all the way around. So there is no reason to think that that trend isn't going to continue.

<Q – Frank G. Morgan>: I can hear Mary Ann coughing and shaking her head at the same time -

<A – Jay Grinney>: Well, that and all the lawyers.

<Q – Frank G. Morgan>: Yeah, yeah. Second question and then I'll hop off, you mentioned the acuity levels being a little bit higher. And do you think any of this is coming from LTCHs or do you just think it's literally some other rehab providers, unit providers?

<A – Jay Grinney>: You mean the share gains?

<Q – Frank G. Morgan>: Yeah.

<A – Jay Grinney>: Well, I don't know. I don't think that we're getting much from LTCHs. I'm looking at Mark here.

<A – Mark Tarr>: Hey, Frank. We did get some referrals from LTCHs after they've completed the more medically fragile portion of their care.

I just think the patients are sicker and sicker in acute cares. And we're getting them out of the acute cares to the point where they continue to be more complex in nature.

<A – Doug Coltharp>: I think there is the prospect that if the patient criteria becomes law within the LTCHs. We could wind up starting to see a shift in the market share in our favor at that time.

<Q – Frank G. Morgan>: Okay, thank you.

Operator: Your next question comes from Rob Mains of Morgan Keegan.

<A – Jay Grinney>: Good morning, Rob.

<Q – Rob Mains>: Good morning. Doug, just to clarify on the true-ups of the reserves, if we were to take, I know this is subject to seasonality and everything, but take the $3.3 million out of – or add it back rather to labor, and the $4.6 million out of other expenses, that would be the right way to look at sort of a run rate?

<A – Doug Coltharp>: I don't know that I would classify it as a run rate. That was clearly the two offsetting items related to self-insurance costs that occurred during the quarter, but they're very different items.

I think what we have said is, during the course of 2010, these things – the activity that you saw in the quarter was representative of what we saw in the year. We had generally positive news through the course of the year on workers' compensation and we had generally negative news with regard to some of the opens claim years on GPL.

The good news is we have now added such amounts to our reserve for the GPL that we feel that we are adequately reserved against the open claims years.

What's more difficult to assess, but what's going to be incorporated, what's incorporated into our guidance, is the assumption that based on a number of factors, including the age and the acuity of the patients that we're treating in our facility, we're going to have a sustained higher level of GPL expenses on a go-forward basis.

The workers' comp, again we're not sure that the complete benefit realized in 2010 carries on a go-forward basis. So you have to kind of net the two to get to a run rate.

<Q – Rob Mains>: Gotcha. Okay. That makes sense. And then I know it's not a big part of the business, but outpatient, the decline year-over-year slowed in the fourth quarter, and I know you got the MPPR that's going to create some headwinds this year. But do you think that you're past the worst of the year-over-year declines in that business?

<A – Jay Grinney>: Yeah, we do. I think it's still a competitive business with very few barriers to entry, but yes, we do believe that we are through the worst. And I think that the portfolio – the small portfolio we have of satellite clinics is poised for a more normal year in 2011.

Operator: Your next question comes from John Ransom of Raymond James.

<Q – John Ransom>: Hi, good morning. Following all those...

<A – Doug Coltharp>: Hello John.

<Q – John Ransom>: ...following all those smart questions, I'm kind of pulling up the rear with dumb questions. So the two things, Doug, is let's flash forward to June, when those notes are callable. Could you remind us what the accordion feature is on your revolver, how much it is and what the implements are there to access it? Are there any extraordinary hurdles, or is it just there if you need it?

<A – Doug Coltharp>: The hurdles are not extraordinary, they are kind of customary, but we do have to go back and get the approval of at least the majority of the lenders. The $300 million accordion facility...

<Q – John Ransom>: Okay.

<A – Doug Coltharp>: I will tell you it is not currently our intent to exercise that option, and specifically not to exercise that option as a refinancing mechanism of 10.75%. Although, we like utilizing at least a portion of the excess capacity for the revolver, as a funding source and in fact had put in place the new revolver with that intent, we want to be careful about pulling too much of that maturity forward, pulling a portion of it forward makes sense, particularly because we've cleared the decks between now and 2016 in terms of maturity.

<Q – John Ransom>: Right.

<A – Doug Coltharp>: And having some amount of floating rate pre-payable debt is very attractive to us, but we think it would be inconsistent with our overall capital structure strategy to take a significant portion.

<Q – John Ransom>: Okay.

<A – Doug Coltharp>: And to actually accelerate the maturity.

<Q – John Ransom>: All right. So let's just do a little exercise. Let's say, just hypothetically, you've got $125 million in cash by then and an untapped revolver. How much would you – I think you said you always want to have, what, at least $250 million available? So I guess we could take the cash plus maybe half your revolver, ex the accordion, as maybe the maximum that you might prepay in June without E&Y?

<A – Doug Coltharp>: Yeah, I think that's probably a little bit of a high estimate, because remember you've got to take the LCs off of that. And what we've said is, we would always like to have at least $250 million available liquidity. I think the number that we had thrown out at Investor Day, and that we've talked about consistently since then is that I think in that initial range you had thrown out with it being in the $100 million to $150 million range.

<Q – John Ransom>: That's as much as you would pay off?

<A – Doug Coltharp>: That's as much as we would utilize the revolver for.

Operator: Your next question comes from Sheryl Skolnick of CRT Capital.

<Q – Sheryl R. Skolnick>: Good morning, everyone.

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

<A – Doug Coltharp>: Good morning, Sheryl.

<Q – Sheryl R. Skolnick>: And Mary Ann I hope you feel better and you did a good job substituting, Doug, but we will welcome Mary Ann back?

<A – Jay Grinney>: Absolutely, Sheryl.

<Q – Sheryl R. Skolnick>: Sure. And let me just say, I'm delighted that you do not include unnamed acquisitions in your guidance. I think it's appropriately conservative, and quite frankly, I would look very unfavorably on the company's prospects if you felt compelled to put that in, in order to goose up whatever near-term stock price benefit you would get from that. So just for the record, you've got one on the other side.

And, but my actual question is, one and then follow-up. And forgive me for the critical nature of this, but I'm confused. Your quality is high, it's higher than the rest of the industry. Your quality is improving, yet you're having to increase twice in a row and have issues surrounding your med mal, general liability. What is happening in the business? Why should I not be worried about that? Why is that not inconsistent? And furthermore, what are you doing to ensure that you are generating quality improvements to perhaps mitigate some of the increase in med mal? I realize it's small, but it's really key, based on what Jay said about increasing importance to your reimbursement on quality.

<A – Doug Coltharp>: It's – I mean it's a fair question, Sheryl. Remember that most of the activity around the increase in the GPL reserve is looking backwards. And in fact we're looking back as far as claims years in 2008. I think that doesn't excuse it. We did have a couple of significant cases. The nature of GPL is that, it's going to be lumpy and we saw a couple of lumps coming together including the $4.6 million hit we took for a specific piece of litigation in July, one that we are appealing vigorously and that we think we'll ultimately prevail on the outcome.

In terms of what we are doing to mitigate that on a go-forward basis, it's all about the discipline in the operations. It's all about making sure that we're not only conducting the appropriate procedures in our hospitals and we're pretty confident that we are doing that on a regular basis, where we could always stand to do a little bit better is ensuring that everything that we do and every hospital is appropriately documented.

<A – Jay Grinney>: And one of the things, Sheryl, that we will be seeing – one of the benefits of this Beacon System is the ability to start tracking the outcomes and patient satisfaction on a real time basis as well. To help reinforce the fact that outcomes and quality and patient satisfaction are important, we've included elements of that in our senior management bonus plan. And it's really just to begin that internal socialization if you will that this is a high priority. It's not of – it's not something that we can just assume as it given.

The other comment I would make is in terms of the increases we are seeing more patients. I mean if you think about the growth in the number of patients since 2007 or 2006 even, it's been pretty dramatic. I mean we've seen probably in that timeframe maybe 25% aggregate increase. So you would expect that in that timeframe and with more patients there is going to be a need to accrue for a higher liability expense.

<A – Doug Coltharp>: I don't want to beat this horse to severely, but I can ensure you that we are not taking increases in GP&L cost as a fait accompli. We have teams of operations people under Mark's direction; a legal team under John Whittington's direction, and the risk management team which rolls up to me working in concert to ensure that we aggressively manage those costs.

<Q – Sheryl R. Skolnick>: That's fair enough. And I appreciate that. And then my follow-up question, which is not really related, but I'll ask it anyway – on the Medicaid environment, your stock took quite a hit when the Texas Legislature proposed a 10% across-the-board cut. And if my count is right, you had 44 days of Medicaid in 2009 in the state. So can you comment to the record on what you would expect your – what's in your guidance for Medicaid issues and its relevance for HealthSouth so that perhaps we can better understand how the stock should move in reaction to Governors' budgets, which are generally expected March 1st?

<A – Jay Grinney>: Yeah, I think that the short answer is, there shouldn't be any impact. I mean our Medicaid exposure is de minimis. It's less than 2% of our total revenues. The patients that we do get in are typically critically, critically ill. They're managed on a very tight and a very conservative way from the Medicaid programs. I see very little I mean frankly I don't see any impact on the initiatives at the state level on this company. Now, if we were in acute care world or if were a skilled nursing company it would be different, but we're not. I mean we have so few Medicaid patients that it's just really not going to be an issue at all.

<A – Mark J. Tarr>: Sheryl, we operate in a number of states where the Medicaid doesn't even cover inpatient rehabilitation or the restrictions are so severe that it covers just a few days, so...

<A – Jay Grinney>: It's almost as if those patients are admitted by exception, rather than as part of the practice of that Medicaid program. So I see no impact to the company.

Operator: Your next question comes from Colleen Lang of Lazard Capital Markets.

<Q – Colleen Lang>: Hi, good morning, everyone.

<A – Jay Grinney>: Good morning.

<Q – Colleen Lang>: I just had a quick question on the inpatient rehab acquisition pipeline and also acquisition pricing. With the UDS status showing continued weaker volumes in the market, have you seen more facilities looking to sell? And then how about in terms of acute care IRF units?

<A – Jay Grinney>: In terms of the freestanding that pipeline I think is fairly unchanged even with the change in the UDS and indicating that we continue to take market share. There aren't a lot of freestanding hospitals out there, those that are physician-owned. They may hang in there for a little while longer waiting to see what happens with healthcare reform. Does that somehow get overturned. And with that, does physician ownership comeback, those that are not affiliated with physicians, certainly, we're out there talking to them and looking for opportunities.

In terms of the units. That's a little bit different situation, because they are really more tied to the overall profitability of the acute care hospital host. And we are seeing some that are interested in looking for potentially, partnerships maybe just an outright sale, but where we think we have from a development standpoint, the – really the greatest opportunity is frankly in the de novos. We've filed several

Certificates of Need in CON states. It will take a while to work those through. But we've really been very successful at building new hospitals and new markets and having those turn out to be extremely successful for us. So across the board, I think that it's really a similar environment in '11 as we saw in '10 and we think that the pipeline is still pretty attractive.

<Q – Colleen Lang>: Okay, great. Thanks for the color. And just as a quick housekeeping item, can you just remind us how many beds you expect to add to your existing portfolio. And when do those two larger rehab CapEx projects – when are those expected to be completed?

<A – Doug Coltharp>: The two refurbishments – most of that work will be conducted through the course of 2011, but they should be all but completed by the end of the year.

<A – Jay Grinney>: And in terms of the new beds, we think that somewhere in the 100 bed plus or minus 20 is the right number. I know that's kind of a broad range, but what we see occasionally is the construction gets completed, but the licensing and the ability to see patients sometimes is delayed due to just bureaucratic snafus or delays at the state level. But we think that 100 mark is still a good mark going forward some years it may be a little bit less than that; some years it may be a little bit more, but for the foreseeable future, at least the next couple of years, we see that to be a pretty good metric.

Operator: Your next question comes from Kevin Fischbeck of Bank of America.

<Q – Joanna Gajuk>: Hi, good morning. Actually, this is Joanna Gajuk for Kevin. I have two related questions to some of the disclosure you have in the slides, in slide 19 and 20, I guess you're more of a – out of your outlook, and the first question is about labor cost, I guess the expectation here is that the cost growth would remain the same, but I guess if the economy improves, we might see some pressure on things like labor costs. So can you comment on that and then I have a second question.

<A – Jay Grinney>: Sure. We may very well see, if inflation starts to rear its head. We may see some additional pressure on our annual merit increases. We believe that that will be offset however by increases in the market basket. As you see on page 19, we're assuming fairly modest market basket update over that time period. So we think that, if there is an increase in the need to pay higher than that 2.5%, 3.5% or 2% to 3% we'll see that reflected also in our top line.

<Q – Joanna Gajuk>: Right. That makes sense. And then related question on the slide, I guess the question is why is managed care price increased in 2011, because it seems like some of the companies expect managed care pricing to come under more scrutiny in the next few years?

<A – Jay Grinney>: Well, we do too. Some of our contracts have pricing for out years already baked in, but we've never been in a situation where we've taken advantage of our position and tried to get top dollar increases 5%, 7%, 8% like some of the other providers. So we feel pretty good about this 3% to 5%, especially if you go back to what we're just talking about. If inflation does indeed start to kick in, that will put a little more upward pressure on what we're able to get from the managed care companies, but we feel very good. For 2011 we've got a fair number of those as I said that have multi-year increases already baked in. So we feel that 3% to 5% – 3% to 4% in '11 and 3% to 5% probably the right number going forward.

<Q – Joanna Gajuk>: Great. Thank you so much.

Operator: Your next question comes from A.J. Rice of Susquehanna Financial.

<Q – A.J. Rice>: Yes. Hello, everybody.

<A – Doug Coltharp>: Good morning.

<A – Jay Grinney>: Good morning.

<Q – A.J. Rice>: First of all on the 10.75% notes, I wanted maybe to ask about that in a little different way. If – I know you guys have expressed that it's preferable to pay it down obviously out of cash rather than refinance it at 7.5%, I think you are saying it would cost to refinance it. If the E&Y settlement – if you have $100 million to $150 million of availability come mid-year when they are callable, and the E&Y settlement is pushed to the back half, are you thinking that you might end up deciding just to wait and see how that plays out before you address the notes maybe later in the year, rather than right at the call date?

<A – Doug Coltharp>: We're not waiting around for a settlement on the E&Y to execute to our business plans. We think that if there were a settlement eminent, then certainly that would factor into our decision to maybe access the senior notes market where the arbitrage is significantly less on the cash pay down. I still think that it is very likely that at or very proximate to the call date, we will take some action around the 10.75% notes.

<Q – A.J. Rice>: Okay. And just to step up, I guess you had been running mid $70 million on the depreciation and amortization. And now I think the guidance for this year is $82 million. Is there anything specific, or is that development projects that you are capitalizing that now are going live? I guess seeing that step up – I know you've got a lot of investment, but I just wondered if there was something specific that was driving the rate of step-up we are seeing going into 2011.

<A – Jay Grinney>: No, there isn't anything more than what you just said.

<A – Doug Coltharp>: Yeah, it's really that the fact that we've – as a result of our improving financial condition, we've fortunately been in a position to invest more in growth CapEx over the last couple of years. What comes along with that is an increase in depreciation expense, but it's also making very significant contributions to the growth in our EBITDA. And we think that's a good trade.

<Q – A.J. Rice>: Sure, sure. Okay. I'll leave it at that. Thanks.

<A – Jay Grinney>: All right. Thanks A J.

Operator: Your next question comes from Gary Lieberman of Wells Fargo Securities.

<Q – Gary Lieberman>: Thanks for taking the question.

<A – Jay Grinney>: Hello Gary.

<Q – Gary Lieberman>: I wanted to follow-up on the acquisition front. I appreciate the discussion about being disciplined and wanting to be deliberate about any acquisitions you do and being careful not to over-lever the company. But I guess, with the pickup in what others are doing and what others might be looking at, do you have any concern that you potentially miss an opportunity if you wait too long, that you might do maybe a year or two from now, but that otherwise, in this environment, you might be forced to take the opportunity a little bit sooner?

<A – Jay Grinney>: No, there hasn't been a single acquisition that's been announced that we've said to ourselves, gosh, that's a missed opportunity. Not a single one; not a single one. So I mean I hear what you're saying, Gary, and as I said before, it's easy to kind of get caught up and mesmerized by the M&A activity, but I mean, you look at just in our space, over the last couple of years and without naming any specific companies, acquisitions were announced; stock price goes up; synergies are forecasted. Everybody feels great. And then 12 to 15 months later, when the reality of having to operate those acquisitions or as I said under the microscope, stock price goes back down.

And then what happens? Then the company is forced to do something else, some other kind of transaction. We never want to be in a situation where we feel we have to do something simply to extract value for our shareholders. And frankly a lot of those acquisitions out there both purchaser and seller are doing the – are engaged in the M&A because they have to and we don't. And we're not going to put ourselves in a position where we do have to. And so we've been fairly disciplined. It's much harder to say no than it is to just follow the herd and we're not just going to follow the herd.

<Q – Gary Lieberman>: Okay, thanks a lot.

<A – Doug Coltharp>: When you look at how we're positioned, we like the segment that we're operating in and we like our position in that segment. We like what our financial leverage is doing and we like the composition of our capital structure. We like the flexibility that we have embedded in our cost structure, and we like the fact that we control the substantial portion of our real estate. That's a pretty good position to be in.

Operator: Your next question comes from Scott Hansen of J. P. Morgan.

<Q – Scott Hansen>: Hi, great. Thanks for taking the question. Just have a question on length of stay in the quarter. It looks like it has ticked down and it's sort of lower than it has been at least in the last few years. Was there anything in the quarter that really drove that phenomenon?

<A – Mark Tarr>: No. Hey, this is Mark. There wasn't one particular thing that drove that. I think you'll see some minor fluctuations both up and down in length of stay from one quarter to the next. But there wasn't anything specific that drove that down.

<Q – Scott Hansen>: Okay. So it's fair to assume you could see it kind of break that 14-day length of stay again?

<A – Mark Tarr>: Yeah, I think that 14 days is probably pretty good number. We just kind of where we've been plus or minus for the past couple of years, so once again, I don't expect that to fluctuate significantly from around that point.

<Q – Scott Hansen>: Okay, great. And then also in the quarter, the payor mix kind of shifted a little bit with managed care, it looks like, coming down and Medicare coming up. Anything that the payors are doing that's different, or is that more of a sort of just underlying volume issue?

<A – Jay Grinney>: It's actually a shift away from the private fee-for-service component of managed Medicare into traditional Medicare.

<Q – Scott Hansen>: Okay. So we probably could see that again this year with PFFS going away?

<A – Jay Grinney>: Yes, we might very well see that.

<Q – Scott Hansen>: Okay, great. Thank you.

<A – Jay Grinney>: And Scott as you know from a pricing standpoint, it really doesn't have any benefit or any penalty associated with it, because fee-for-service is reimbursed at same level as traditional. So the patient maybe managed care, but it's private fee-for-service managed care moving back into traditional Medicare.

<Q – Scott Hansen>: Gotcha. Okay. Thank you.

<A – Jay Grinney>: You're welcome.

Operator: Your next question comes from Doug Simpson of Morgan Stanley.

<Q – Doug Simpson>: Hi, good morning, everyone.

<A – Jay Grinney>: Good morning.

<Q – Doug Simpson>: A lot of my questions have been addressed already, but just a housekeeping thing, did you guys throw out a CapEx number for this year?

<A – Doug Coltharp>: We have not, but we have said as we anticipate that maintenance CapEx will be approximately $20 million higher this year than it was last year. Last year, it was right on $40 million.

<Q – Doug Simpson>: Okay. And then...

<A – Doug Coltharp>: The part that's harder to peg is obviously the growth related CapEx because we include in that acquisition activity, and as we discussed earlier, the acquisitions are difficult to pinpoint at this juncture.

<Q – Doug Simpson>: Okay. And then maybe just I know there has been a lot of questions about the potential for acquisitions, but just two things on that. One, did you – do you think about a target leverage level looking out three to five years? Where do you see sort of the book running in terms of leverage targets? And then it sounds like you're very interested in the opportunity on the de novo side. Can you just lay out for us, what is the biggest swing factor in terms of the make/buy decision? Obviously, it's returns valuation. But how do you guys think about make/buy and de novo versus JV?

<A – Jay Grinney>: Well, in terms of the make/buy, it's really a matter of opportunities within the market. Where we think the greatest opportunities exist are in those markets where there is a scarcity of inpatient rehabilitation beds.

<Q – Doug Simpson>: Sure.

<A – Jay Grinney>: In terms of do we build and own it or do we find somebody that might finance it or a developer? That's really much more a function of what the lease terms are and who owns the Certificate of Need in a CON state, who owns the licensure. So the de novo strategy is really predicated on finding markets where they're underserved from a rehabilitation standpoint.

<A – Doug Coltharp>: With regard to the longer-term leverage, we've stated that we'd like to see this company run at about three times leverage ratio. And we recognized that that is lower than many other facility-based companies tend to run at. We think it's appropriate given the composition of our business particularly the heavy concentration in Medicare. Is that to suggest that if the right opportunity would come along, we might not tolerate some kind of temporary increase in leverage.

We might if it's within a reasonable level and if there is a very clear path to bringing the leverage down to a level more in concert with that which existed prior to that deal being transacted. It's awfully tempting in this kind of market where you have low interest rates and where terms such as covenant-light and PIK toggle are already coming back into play. But we think that we are much better served by operating at a reduced level of financial leverage. The next several years are going to be all about flexibility. And to us, flexibility is directly correlated to the appropriate level of financial leverage in the right composition of the capital structure.

<Q – Doug Simpson>: Great. That's very helpful. Thank you.

Operator: Your next question comes from Miles Highsmith of RBC Capital Markets.

<Q – Miles Highsmith>: Hi, good morning, guys.

<A – Jay Grinney>: Good morning.

<Q – Miles Highsmith>: I know it's been a long call. Just one for me – as it relates to TeamWorks, back a few years ago, we started on the sales and marketing side and kind of shifted into clinical and quality here, in this past year. I know you alluded to a couple of things, but just wondering if you could maybe kind of give us a couple of specifics in terms of where you are there and maybe what the next opportunities are with TeamWorks. Thanks.

<A – Mark Tarr>: Hi, Miles. This is Mark. Two things on TeamWorks. One first on the sales and marketing as you know, we rolled that out several years ago, this past year what we've tried to do is go back in and do some reorientation in a number of our hospitals where we saw maybe some of the teams were starting to work away from some of those TeamWorks' principles. So we've put a real concerted effort on reorientation on some of the TeamWorks' aspects on the sales and marketing.

Currently, we're in the process of rolling out our Care Management, which is more of a clinical focus of standardizing the whole case management aspect within our hospitals. We piloted at a number of hospitals, kind of fine-tune the Playbook so to speak, and then last week was the first week of rolling it out to our first grouping of 10 hospitals. We will continue to roll that out, we'll probably done with all of our portfolio of hospitals somewhere around June, mid-year, so we're going to take it in 18 hospital increments in rolling out the case management aspect. So the field is very excited about it. The response so far has been very positive and we expect it to have a nice impact on our overall coordination of care in our hospitals and be reflective in the quality as well.

<A – Jay Grinney>: And in terms of next initiatives, we haven't made that decision yet. As we've done in the past, once we roll something out like we did with the sales and marketing, now we're doing with care management, we like to see that for at least a year to make sure that the initiative has taken if you will, and has been successfully implemented across the hospitals rather than moving on to that next initiative. So we haven't really made that decision Miles, but we'll be looking for opportunities and frankly we'll be getting a lot of that feedback from our hospitals.

<Q – Miles Highsmith>: Thanks, guys.

<A – Jay Grinney>: You bet. Thank you.

Operator: And at this time, I'm showing no further questions, I'll turn the conference back to you management for any closing remarks.

Doug Coltharp, Executive Vice President and Chief Financial Officer

Great. I will once again substitute for Mary Ann. I think this will probably be the last time. Well, I remind everyone we will be attending the Raymond James and Barclays Equity Conferences as well as the JPMorgan, Goldman Sachs and Barclays High Yield Conferences in March. We again like to thank you all for your participation in today's call and your interest in our company. If you have any additional questions please call Mary Ann. She has assured me that her voice will be returning enough to field your calls today, and as a reminder her number is (205) 969-6175. Thank you.

Operator: And ladies and gentlemen that concludes HealthSouth's fourth quarter 2010 earnings conference call. We appreciate your time. You may now disconnect.