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RehabCare Group, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) The first question comes from Rob Hawkins from Stifel Nicolaus.

Robert Hawkins - Stifel Nicolaus & Company, Inc.

I guess I would like to first start with a little bit more color on the rehab volume growth in the HRS and the same-store volumes and the free-standing Hospital division. Can you give us some thoughts there on maybe what's going on. You mentioned some softness in the host hospital environment and I just wanted to get a sense of where you think the quarter is and how the current hospital environment looks.

John H. Short, PhD

Both in our HRS division and in our own hospitals we saw softness in the second quarter. When we looked at the two companies that have reported so far, they're reporting soft census. So clearly some of this has been environmental because it was throughout most of our portfolio of 107 as well as in most of our 11 own hospitals. Now, we are starting to see it pick up especially towards the end of July and so we're pretty optimistic about the third quarter. We believe the fourth quarter should be back on track. I'm not exactly sure why it was as soft as it was on the acute side of the business but it clearly is, at least from our perspective.

Robert Hawkins - Stifel Nicolaus & Company, Inc.

Is there much difference in the LTACH side of things in terms of how the free-standing shook out and with the rehab still getting kind of impacted? Is it related to some of the JVs or how are your feelings about the LTACH versus rehab?

John H. Short, PhD

We saw it in both. Remember, we're the back door of acute hospitals. Virtually all of the hospitals that are referral sources to us reported soft census that progressively got softer as the quarter progressed. Again, we are starting to see a turnaround mid-July because it's nothing we monitor on a daily basis. I don't know if it was just an outbreak of good health or what was going on. It was certainly more than we anticipated.

Robert Hawkins - Stifel Nicolaus & Company, Inc.

It sounds like a little bit more difficult seasonality than usual. In terms of start-up losses, are you feeling pretty good? Last quarter you mentioned that you were feeling pretty good, you were getting some standardization and progress in bringing these on this quarter, the start-up losses and some of the performance in the free-standing business. It looked a little bit off. Have your thoughts changed any in terms of how these start-ups look? I know they are always a bumpy road, each one is a little different.

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