

LifeCare Holdings, Inc.

**News Release
For Immediate Release
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LifeCare Holdings, Inc. Announces Second Quarter Results

Plano, TEXAS – LifeCare Holdings, Inc. (the “Company”) today announced its operating results for the three-month and six-month periods ended June 30, 2006. The Company will host a teleconference on Thursday, August 17th, at 9:00 a.m. CST to discuss its operating results. Participants may join the teleconference by dialing 877-645-6127. Please reference conference ID #4619326.

On August 11, 2005, we consummated an acquisition (“Transaction”) pursuant to which a corporation formed by investment funds associated with The Carlyle Group and certain members of our management and board of directors, merged with and into our Company, with our Company continuing as the surviving corporation. We have reported our operating results and financial position for the periods subsequent to the transaction as the Successor Period and all periods prior to the transaction as Predecessor Periods. Additionally, we have provided selected financial and operational information on a “same store” basis, which excludes the operations associated with our three hospitals in New Orleans, which were closed in the aftermath of Hurricane Katrina, and our hospital in West Chester, Pennsylvania, which was opened in September of 2005.

In connection with the Transaction, we borrowed \$255.0 million under a senior credit facility and issued \$150.0 million of senior subordinated notes. The Company may from time to time elect to repurchase a portion of these notes. We also entered into a revolving working capital loan agreement (“Revolver”) that provides \$75.0 million of borrowing capacity. To date, we have made no borrowings pursuant to the Revolver, and our cash balance at June 30, 2006 was approximately \$32 million.

At June 30, 2006, the Company’s hospital operations included 893 licensed beds in 18 locations in nine states.

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Net Revenues

Our net patient service revenue decreased by \$10.2 million, or 11.2%, for the three months ended June 30, 2006, to \$81.3 million from \$91.5 million for the comparable period in 2005. This decrease was principally the result of the closure of our three New Orleans hospitals, which contributed \$10.6 million in net revenue in the second quarter of 2005. Excluding the New Orleans and West Chester hospitals, our net patient service revenue decreased by \$1.8 million in the 2006 period to \$79.1 million from \$80.9 million during the same period in 2005.

This decrease included an increase of \$1.4 million due to an increase in patient days and an increase of \$1.8 million due to an increase in revenue per patient day, offset by a net decrease of \$5.0 million for adjustments related to previously filed cost reports. The increased revenue per day was primarily the result of an increase in the percentage of our revenues generated from commercial payors and our continued focus on treating higher acuity patients. During the three months ended June 30, 2006,

we recorded a reduction in net patient service revenue of \$3.4 million whereas during the three months ended June 30, 2005, we recorded an increase in net patient service revenue of \$1.6 million related to changes in estimates and settlements on cost reports filed with the Medicare program. The most significant cost report valuation adjustment recognized during the three-month period ended June 30, 2006, relates to two of the Company's hospitals. In these cases, the actual cost to charge ratio, which is used to determine the reimbursement for short stay and high cost outliers, was outside the 10% limit of the cost to charge ratio amount used by CMS to process interim claims such that it resulted in a reconciliation of payments to the actual cost to charge ratio for these cost report periods.

Total Expenses

Total expenses increased by \$24.5 million to \$100.7 million for the three months ended June 30, 2006 as compared to \$76.2 million for the comparable period in 2005. Included in the expenses for the 2006 period is an impairment charge of \$24.6 million related to goodwill. Goodwill increased during the period, prior to the impairment charge, as a result of the distribution of \$24.6 million of contingent consideration distributed to prior shareholders during June 2006. For the three months ended June 30, 2006 our New Orleans operations had total expenses of \$(4.8) million as compared to \$7.9 million during the same period in 2005. Included in the New Orleans expenses for the three months ended June 30, 2006 is a credit of \$5.3 million related to the recording of additional insurance proceeds. Exclusive of the goodwill impairment charge and net expenses attributable to our New Orleans and West Chester operations, total expenses increased by \$10.3 million to \$78.6 million for the three months ended June 30, 2006 from \$68.3 million for the three months ended June 30, 2005.

Of this \$10.3 million increase in total expenses, approximately \$7.6 million was attributable to an increase in net interest expense and \$1.3 million was attributable to an increase in depreciation and amortization expense. The increase in net interest expense was the result of the additional borrowings that occurred in connection with the Transaction during 2005. Depreciation and amortization expense increased during the three-month period ended June 30, 2006 primarily due to an increase in depreciation expense as a result of adjusting property and equipment to fair market value as of the date of the Transaction and amortization expense recorded on the identifiable intangible assets established as a result of the Transaction.

The remaining \$1.4 million of the total \$10.3 million increase was the result of a combination of the increase in same store patient days and increases in salaries, wages and benefits, supplies, outside services and contract labor expenses incurred as the result of inflationary increases and the overall increase in patient acuity during the 2006 period as compared to the same period in 2005.

Credit Agreement EBITDA

For the quarter ended June 30, 2006, the adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$11.9 million, a decrease of \$8.6 million, or 41.9% from the prior year period. Credit Agreement EBITDA reflects the elimination of the impact of Hurricane Katrina on our operations, start-up costs associated with our West Chester hospital and certain other non-recurring/operational expenditures as defined in our credit agreement. When adjusted to reflect the elimination of New Orleans prior to Hurricane Katrina during 2005 and our West Chester hospital EBITDAM earnings for the second quarter of 2006 (same store), our Credit Agreement EBITDA decreased by \$5.8 million, or 32.7%, from the prior year period. As a percent of net patient service revenue, same store Credit Agreement EBITDA decreased to 15.1% for the 2006 period as compared to 21.9% for the same period in 2005. The decrease in Credit Agreement EBITDA, on a dollar and percentage of net patient service revenue basis, was due to the impact of the lower Medicare LTCH DRG

weights that were effective October 1, 2005, increases in expenses attributable to the increase in patient acuity and the adjustments to previously filed cost reports.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Net Revenues

Our net patient service revenue decreased by \$13.0 million, or 7.2%, for the six months ended June 30, 2006, to \$168.6 million from \$181.6 million for the comparable period in 2005. This decrease was principally the result of the closure of our three New Orleans hospitals, which contributed \$22.4 million in net revenue in the six months ended June 30, 2006. Exclusive of the decrease in net patient service revenue attributable to the New Orleans and West Chester hospitals, our net patient service revenue increased by \$6.3 million in the 2006 period to \$165.5 million from \$159.2 million during the same period in 2005.

This increase was comprised of \$4.8 million attributable to an increase in patient days and \$6.2 million due to an increase in revenue per patient day, offset by a net decrease of \$4.7 million for adjustments related to previously filed cost reports. The increase in revenue per patient day was primarily the result of an increase in the percentage of our revenues generated from commercial payors and our continued focus on treating higher acuity patients. During the six months ended June 30, 2006, we recorded a reduction in net patient service revenue of \$3.4 million whereas during the six months ended June 30, 2005, we recorded an increase in net patient service revenue of \$1.3 million related to changes in estimates and settlements on cost reports filed with the Medicare program. The most significant cost report valuation adjustment recognized during the six-month period ended June 30, 2006, relates to two of the Company's hospitals. In these cases, the actual cost to charge ratio, which is used to determine the reimbursement for short stay and high cost outliers, was outside the 10% limit of the cost to charge ratio amount used by CMS to process interim claims such that it resulted in a reconciliation of payments to the actual cost to charge ratio for these cost report periods.

Total Expenses

Total expenses increased by \$34.2 million to \$181.7 million for the six months ended June 30, 2006 as compared to \$147.5 million for the comparable period in 2005. Included in the expenses for the 2006 period is an impairment charge of \$24.6 million related to goodwill and a gain of \$1.3 million related to the early extinguishment of debt. For the six months ended June 30, 2006 our New Orleans operations had total expenses of \$(4.1) million as compared to \$16.3 million during the same period in 2005. Included in the New Orleans expenses for the six months ended June 30, 2006 is a credit of \$5.3 million related to the recording of additional insurance proceeds. Exclusive of the goodwill impairment charge, the gain on early extinguishment of debt and net expenses attributable to our New Orleans and West Chester operations, total expenses increased by \$27.3 million to \$158.5 million for the six months ended June 30, 2006 from \$131.2 million for the six months ended June 30, 2005.

Of this \$27.3 million increase in total expenses, approximately \$14.8 million was attributable to an increase in net interest expense and \$2.8 million was attributable to an increase in depreciation and amortization expense. The increase in net interest expense was the result of the additional borrowings that occurred in connection with the Transaction during 2005. Depreciation and amortization expense increased during the three-month period ended June 30, 2006 primarily due to an increase in depreciation expense as a result of adjusting property and equipment to fair market value as of the date of the Transaction and amortization expense recorded on the identifiable intangible assets established as a result of the Transaction.

The remaining \$9.7 million of the total \$27.3 million increase was the result of a combination of the increase in same store patient days and increases in salaries, wages and benefits, supplies, outside services and contract labor expenses incurred as the result of inflationary increases and the overall increase in patient acuity during the 2006 period as compared to the same period in 2005.

Credit Agreement EBITDA

For the six months ended June 30, 2006, the adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$29.8 million, a decrease of \$12.8 million, or 30.0% from the prior year period. Credit Agreement EBITDA reflects the elimination of the impact of Hurricane Katrina on our operations, start-up costs associated with our West Chester hospital and certain other non-recurring/operational expenditures as defined in our credit agreement. When adjusted to reflect the elimination of New Orleans prior to Hurricane Katrina during 2005 and our West Chester hospital EBITDAM earnings for the second quarter of 2006 (same store), our Credit Agreement EBITDA decreased by \$6.5 million, or 17.9%, from the prior year period. As a percent of net patient service revenue, same store Credit Agreement EBITDA decreased to 18.0% for the 2006 period as compared to 22.8% for the same period in 2005. The decrease in Credit Agreement EBITDA, on a dollar and percentage of net patient service revenue basis, was due to the impact of the lower Medicare LTCH DRG weights that were effective October 1, 2005, increases in expenses attributable to the increase in patient acuity and the adjustments to previously filed cost reports.

CMS Fiscal 2007 Reimbursement Changes

On May 2, 2006 CMS issued the final regulations for the 2007 fiscal year starting on July 1, 2006 regarding the prospective payment system for LTACHs. The final rules included, among other things, (i) a change in the payment provisions related to short-stay outliers; (ii) an increase in the outlier fixed-loss amount from \$10,501 to \$14,887; (iii) an increase in the labor-related share of the prospective payment system federal rate from 72.855% to 75.665%; (iv) eliminating the surgical case exception to the three-day or less interruption of stay policy; and (v) a freeze on the fiscal 2007 federal rate at the 2006 level.

The current payment methodology for short-stay outliers reimburses long-term acute care hospital providers at the lowest of (i) 120% of patient cost; (ii) 120% of the per diem amount based on the diagnosis related group; or (iii) the full diagnosis related group payment. The final rule introduced a fourth payment alternative: (iv) a blend of an amount comparable to what would otherwise be paid under the short-term acute care inpatient payment system ("IPPS DRG") computed as a per diem, capped at the full IPPS DRG comparable payment amount, and 120% of the LTACH DRG per diem payment. An additional CMS change will lower the reimbursement under the patient cost payment alternative from 120% of patient cost to 100%.

CMS has estimated that exclusive of the freeze of the federal rate for fiscal 2007, these changes will result in a decrease in Medicare reimbursement of 3.7% for LTACH providers. Based upon our Medicare patient activity, we have estimated that if these changes had been enacted on January 1, 2006, including updates to the wage indices for the geographic locations of our hospitals, our Medicare revenue for the six months ended June 30, 2006 would have been reduced by approximately 4.2%, or \$5.0 million. These are only estimates of the impact of the final regulations. The actual impact in subsequent periods could be materially different from our estimates. Furthermore, our estimated impact does not include the effect of CMS' proposed freeze of the 2007 federal rate at the 2006 level.

On August 1, 2006 CMS issued changes to the Medicare hospital payment system, including changes to the relative weights and lengths of stay for the diagnosis related groups treated by LTACHs. This final rule will be effective for Medicare discharges on or after October 1, 2006. CMS estimates these changes will result in reducing payments to LTAC providers by 1.3% based on the current reimbursement regulations that are in place. This reduction will be in addition to the reduction discussed previously as a result of the fiscal 2007 rule changes. We are in the process of evaluating the impact that these recent changes will have on our Medicare net patient service revenue in future periods. Historically, however, the actual impact of regulation changes on our Medicare net patient service revenue has closely approximated CMS's estimates. The actual impact of these reimbursement changes in subsequent periods could be materially different from CMS's estimate.

The final regulations also includes (1) changes in the regulations applicable to grandfathered hospitals-within-hospitals and grandfathered satellite facilities, and (2) changes in the methodology for determining cost-to-charge ratios for LTACHs and the reconciliation of high-cost and short-stay outlier payments under the Medicare payment system for such hospitals.

These are only estimates of the effects of the final fiscal year 2007 rule and the changes to the relative weights and lengths of stay. The actual impact of these reimbursement changes in subsequent periods could be materially different from our estimates.

When combined with the October 1, 2005 DRG relative weight re-weighting rules that resulted in an estimated aggregate reduction in our Medicare reimbursement of approximately 5.2%, the final fiscal year 2007 rules that will also reduce our Medicare reimbursement by approximately 4.2%, the elimination of the annual market basket increase and the reduction in the DRG relative weights, which is estimated at 1.3%, that will become effective on October 1, 2006, we have estimated that the cumulative impact of these changes taken as a whole is approximately 14.2%, or a \$35 million reduction in Medicare reimbursement on an annual basis.

Forward-Looking Statements

This press release includes forward-looking statements regarding, among other items, operations, proposed regulations and their possible affect on the Company's results. Such statements are subject to a number of uncertainties and risks that could significantly affect current plans. Furthermore, actual results may differ materially from those experienced or implied by such forward-looking statements. Factors that could cause results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, risks relating to operating in a regulated environment, implementing our business plan, maintaining relationships with physicians in our markets, availability of sufficient nurses and therapists, competition, retaining key management, ability to service our debt requirements and availability of insurance. Further information about factors that could affect the Company's financial and other results is included in our Form S-4 as filed on April 14, 2006, as amended, which can be viewed on the SEC's website. Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. As a result, you should not place undue reliance on forward-looking statements, which reflect management's views only as the date hereof. The Company undertakes no obligation to revise or update any forward-looking statement, or to make any other forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

Credit Agreement EBITDA is used in the calculations of the interest coverage and leverage ratios that are included in the covenants contained in our existing senior secured credit agreement. Credit Agreement EBITDA is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation or as a substitute for operating income, net income, cash flows from operations or other statement of operations or cash flow data prepared in conformity with GAAP, or as measures of profitability or liquidity. In addition the calculation of Credit Agreement EBITDA is susceptible to varying interpretations and calculation, and the amounts presented may not be comparable to similarly titled measures of other companies. Credit Agreement EBITDA may not be indicative of historical operating results, and we do not mean for it to be predictive of future results of operations or cash flows.

LifeCare, based in Plano, Texas, operates 18 long term acute care hospitals located in nine states. Long term acute care hospitals specialize in the treatment of medically complex patients who typically require extended hospitalization. For more information on LifeCare, visit our website at [www. Lifecare-hospitals.com](http://www.Lifecare-hospitals.com).

Schedule 3				
Condensed Consolidated Statements of Cash Flows				
For the six months ended June 30, 2005 and 2006				
(In thousands)				
(Unaudited)				
			Predecessor	Successor
			2005	2006
Cash flows from operating activities:				
	Net income (loss)	\$	20,744	\$ (17,818)
	Adjustments to reconcile net income (loss) to net cash provided			
	by operating activities:			
	Depreciation and amortization		3,053	6,274
	Provision for doubtful accounts		2,981	2,962
	Impairment charges		—	24,600
	Gain on early extinguishment of debt		—	(1,329)
	Accrued interest on shares subject to mandatory redemption		595	—
	Deferred income taxes		(1,009)	(2,107)
	Equity compensation amortization		—	181
	Changes in operating assets and liabilities:			
	Patient accounts receivable		(8,687)	(326)
	Current income taxes		914	12,708
	Insurance proceeds receivable		—	1,667
	Prepaid expenses and other current assets		(891)	(1,857)
	Other assets		(653)	(644)
	Estimated third-party payer settlements		2	(945)
	Accounts payable and accrued expenses		8,783	(2,110)
	Other liabilities		(357)	5,556
	Net cash provided by operating activities		25,475	26,812
Cash used in investing activities:				
	Purchases of property and equipment		(1,253)	(9,100)
	Net cash used in investing activities		(1,253)	(9,100)
Cash flows used in financing activities:				
	Payments of notes payable and long-term debt		(949)	(2,806)
	Payments on obligations under capital leases		(2,030)	(2,891)
	Net cash used in financing activities		(2,979)	(5,697)
	Net increase in cash and cash equivalents		21,243	12,015
	Cash and cash equivalents, beginning of period		6,678	19,843
	Cash and cash equivalents, end of period	\$	27,921	\$ 31,858

Schedule 4		
Selected Operating Statistics		
	Predecessor	Successor
	Three months	Three months
	ended June 30,	ended June 30,
	2005	2006
Number of hospitals within hospitals (end of period)	15	12
Number of freestanding hospitals (end of period)	6	6
Number of total hospitals (end of period)	21	18
Licensed beds (end of period) (1)	1,021	893
Average licensed beds (1)	1,021	893
Admissions	2,343	2,105
Patient days	62,387	57,311
Occupancy rate	67.1%	70.5%
Percent net patient service revenue from Medicare	76.5%	71.3%
Percent net patient service revenue from commercial payors and Medicaid (2)	23.5%	28.7%
Net patient service revenue per patient day	\$1,467	\$1,418
	Predecessor	Successor
	Six months	Six months
	ended June 30,	ended June 30,
	2005	2006
Number of hospitals within hospitals (end of period)	15	12
Number of freestanding hospitals (end of period)	6	6
Number of total hospitals (end of period)	21	18
Licensed beds (end of period) (1)	1,021	893
Average licensed beds (1)	1,000	893
Admissions	4,799	4,186
Patient days	125,587	115,126
Occupancy rate	69.4%	71.2%
Percent net patient service revenue from Medicare	76.4%	71.3%
Percent net patient service revenue from commercial payors and Medicaid (2)	23.6%	28.7%
Net patient service revenue per patient day	\$1,446	\$1,464
(1) The licensed beds and end of period and average licensed beds above include the three New Orleans hospitals and 17-bed facility in Milwaukee that were closed during 2005 for the period of time prior to closure.		
(2) The percentage of net patient service revenue from Medicaid is less than one percent for each of the periods presented.		

Schedule 5							
Selected Information on a Same Store Basis							
For the Three and Six Month Periods Ended June 30, 2005 and 2006							
(In thousands)							
(Unaudited)							
				Three months ended			%
				June 30, 2005	June 30, 2006		Change
Net patient service revenue - as reported	\$	91,538	\$	81,258			-11.2%
Less: New Orleans and West Chester		(10,555)		(2,159)			-79.5%
Net patient service revenue on a same store basis	\$	80,983	\$	79,099			-2.3%
Credit Agreement EBITDA as reported	\$	20,544	\$	11,939			-41.9%
Less: New Orleans and West Chester (1)		(2,791)		(23)			NM
Credit Agreement EBITDA on a same store basis	\$	17,753	\$	11,916			-32.7%
As reported EBITDA margin		22.4%		14.7%			-34.5%
Credit Agreement EBITDA margin on a same store basis		21.9%		15.1%			31.1%
				Six months ended			%
				June 30, 2005	June 30, 2006		Change
Net patient service revenue - as reported	\$	181,575	\$	168,577			-7.2%
Less: New Orleans and West Chester		(22,388)		(3,047)			-86.4%
Net patient service revenue on a same store basis	\$	159,187	\$	165,530			4.0%
Credit Agreement EBITDA as reported	\$	42,530	\$	29,776			-30.0%
Less: New Orleans and West Chester (1)		(6,250)		(23)			NM
Credit Agreement EBITDA on a same store basis	\$	36,280	\$	29,753			-17.9%
As reported EBITDA margin		23.4%		17.7%			24.6%
Credit Agreement EBITDA margin on a same store basis		22.8%		18.0%			21.1%

(1) Pursuant to the Credit Agreement, New Orleans losses after Hurricane Katrina and start-up losses for the West Chester hospital have already been added back to arrive at Credit Agreement EBITDA as reported. The amount adjusted for the quarter and year-to-date periods ending June 30, 2005 represents New Orleans operations EBITDAM. The adjustment for the quarter and year-to-date periods ending June 30, 2006, represents the EBITDAM earnings of the West Chester hospital during the second quarter of 2006.