

## **LifeCare Holdings, Inc.**

**News Release  
For Immediate Release  
March 28, 2008**

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### **LifeCare Holdings, Inc. Announces Year-end Results**

**Plano, TEXAS** – LifeCare Holdings, Inc. (the “Company”) today announced its operating results for the three months and year ended December 31, 2007.

#### ***Three Months Ended December 31, 2007***

##### ***Net Revenues***

Our net patient service revenue of \$79.7 million for the three months ended December 31, 2007, decreased by \$0.1 million as compared to the same period in 2006. Patient days increased by 1,027, or 1.8%, and admissions increased by 32, or 1.5%, during the 2007 period. During the three months ended December 31, 2007, our net patient service revenue per patient day was \$1,390 as compared to \$1,416 per patient day for the same period in 2006, which represents a decrease of 1.8%. This decrease on a per patient day basis was primarily the result of the recent unfavorable reimbursement changes implemented by CMS during 2007, partially offset by an increase in the percentage of our revenues generated from commercial payors.

##### ***Expenses***

Total expenses increased by \$17.1 million to \$117.4 million for the three months ended December 31, 2007 as compared to \$100.3 million for the comparable period in 2006. Included in expenses for the 2007 and 2006 periods are impairment charges of \$35.0 million and \$19.0 million, respectively. Excluding the impairment charges, expenses increased by \$1.1 million to \$82.4 million for the 2007 period as compared to \$81.3 million for the 2006 period.

Rent expense increased by \$1.4 million during the 2007 period in connection with an 11.5% increase in average licensed bed capacity. The provision for doubtful accounts decreased by \$2.9 million during the 2007 period as compared to the same period in 2006 due primarily to a \$1.7 million charge for the impact of a conversion to a new patient accounting system during the 2006 period.

Net interest expense increased by \$1.2 million during the 2007 period as the result of the increase in LIBOR rates during 2007 and the increased margin spread as the result of the amendments to our senior secured credit facility, as discussed further in the Liquidity and Capital Resources section below. The remaining unfavorable variance of \$1.4 million was related mainly to the increases in salaries, wages and benefits, supplies incurred as the result of inflationary increases and the increases in bed capacity.

##### ***Credit Agreement EBITDA***

For the quarter ended December 31, 2007, adjusted EBITDA as defined in the credit agreement for our senior secured credit facility, which we refer to as Credit Agreement EBITDA, was \$13.1 million, which is an increase of \$0.8 million, or 6.5% from the prior year period. Credit Agreement EBITDA reflects the elimination of goodwill impairment charges, start-up costs and certain other non-recurring/operational expenditures as defined in our credit agreement.

## ***Year Ended December 31, 2007***

### ***Net Revenues***

Our net patient service revenue decreased by \$3.7 million, or 1.1%, for the year-ended December 31, 2007, to \$322.2 million from \$325.9 million for the comparable period in 2006.

The decrease in net patient service revenue included an unfavorable \$9.5 million variance as the result of decreased revenue per patient day, offset by a \$2.7 million favorable benefit from an increase in patient days and a net increase of \$3.1 million attributable to a decrease in unfavorable adjustments related to previously filed cost reports. Patient days in 2007 were 2,616 greater, or 1.2% greater, than the same period in 2006. The increase in patient days was partially attributable to the expansion of our operations during 2007.

During the years ended December 31, 2007 and 2006, we recorded reductions in net patient service revenue of \$1.2 million and \$4.3 million, respectively, related to changes in estimates and settlements on cost reports filed with the Medicare program. The adjustment recognized during the year ended December 31, 2006 related primarily 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.

Our net patient service revenue per patient day as reported during the years ended December 31, 2007 and 2006 was \$1,404 and \$1,436, respectively. However, exclusive of the cost report reimbursement adjustments discussed previously, net patient service revenue per patient day for the years ended December 31, 2007 and 2006 was \$1,420 and \$1,455, respectively, or a decrease of 2.4%. The decrease in net patient service revenue per patient day, excluding the impact of the cost report reimbursement adjustment, was primarily the result of the unfavorable reimbursement changes, including payment methodology changes and reductions in DRG weights, implemented by CMS during the latter half of 2006 and during 2007, partially offset by an increase in the percentage of our revenues generated from commercial payors.

### ***Total Expenses***

Total expenses increased by \$19.2 million to \$382.2 million for the year-ended December 31, 2007 as compared to \$363.0 million for the comparable period in 2006. Included in the expenses for the year ending December 31, 2007, is a \$38.8 million impairment charge related to goodwill and \$2.5 million attributable to compensation and benefits accrued in connection with the departure of our former CEO. Included in the expenses for the 2006 period is an impairment charge of \$43.6 million related to goodwill, a gain of \$1.3 million related to the early extinguishment of debt, and \$5.3 million in insurance recoveries related to Hurricane Katrina. Gain on early extinguishment of debt for the year-ended December 31, 2006 was the result of our repurchasing \$3 million in face of our senior subordinated notes for approximately \$1.5 million. Partially offsetting the gain was the write-off of capitalized financing cost of \$0.1 million recorded in connection with the retirement of these senior subordinated notes.

Excluding the impairment charge and the compensation and benefits accrual for 2007, and the impairment charge, gain on early extinguishment of debt, and the insurance recovery for 2006, expenses increased by \$14.9 million from the same period in prior year. Rent expense increased by \$3.6 million during the 2007 period in connection with the increases in bed capacity during 2007. Net interest expense increased by \$3.1 million during the 2007 period as a result of an increase in the LIBOR rates during 2007 and in the margin spread as the result of the amendments to our senior secured credit facility

discussed in the Liquidity and Capital Resources section below. The remaining \$8.2 million increase in expenses was primarily attributable to an increase in salaries, wages and benefits of \$8.3 million, and an increase in outside services, contract labor and other operating expenses of \$3.1 million. These increases resulted from inflation and the increases in bed capacity during 2007. These increases were offset by a decrease in the provision for doubtful accounts of \$2.9 million and a decrease in depreciation and amortization expense of \$0.6 million. The provision for doubtful accounts during 2006 included an additional provision of \$1.7 million for the impact of a conversion to a new patient accounting system during 2006.

### ***Credit Agreement EBITDA***

For the year-ended December 31, 2007, Credit Agreement EBITDA, was \$47.5 million, including a \$6 million cure amount discussed below, a decrease of \$10.3 million, or 17.8% from the prior year period. The decrease in Credit Agreement EBITDA, on a dollar and percentage of net patient service revenue basis, was primarily due to the reduction in revenues associated with the CMS regulatory changes and the increase in expenses discussed previously. As of December 31, 2007, we believe we were in compliance with all covenants contained in our senior secured credit facility, as amended.

### ***Liquidity and Capital Resources***

At December 31, 2007, our outstanding indebtedness consisted of \$147.0 million aggregate principal amount of senior subordinated notes due 2013, and a \$249.3 million term loan facility that matures in 2012.

The senior secured credit facility requires us to comply on a quarterly basis with certain financial covenants, including an interest coverage ratio test and a maximum leverage ratio test, which will become more restrictive over time. In addition, the senior secured credit facility includes various negative covenants, including limitations on indebtedness, liens, investments, permitted businesses, restricted payments, transactions with affiliates and other matters, as well as certain customary representations and warranties, affirmative covenants and events of default including payment defaults.

The interest rates per annum applicable to loans, other than swingline loans, under our senior secured credit facility, as amended are, at our option, equal to either an alternate base rate or an adjusted LIBOR rate for a one-, two-, three- or six-month interest period, or a nine- or twelve-month period if available, in each case, plus an applicable margin. The applicable margins on the loans, as amended, as of December 31, 2007 are (1) 3.25% for alternate base rate revolving loans, (2) 4.25% for adjusted LIBOR revolving loans, (3) 3.25% for alternate base rate term loans, and (4) 4.25% for adjusted LIBOR term loans. These margins are subject to reduction based upon the ratio of our total indebtedness to our consolidated adjusted EBITDA (as defined in the credit agreement governing our senior secured credit facility, as amended). At December 31, 2007, the interest rate applicable to the \$249.9 million under our term loan facility was 9.45%.

On May 2, 2007, we entered into Amendment No. 1 to our senior secured credit facility (“Amendment No. 1”), which modified certain financial covenants effective March 31, 2007 and increased the spread on the variable interest rate to be paid by the Company. Based upon amounts outstanding under the senior secured credit facility and the applicable margins at the time of the amendment, we estimated that the increase in the spread on the variable interest rate would result in additional annual interest expense of approximately \$1.9 million.

As of September 30, 2007, we were not in compliance with the financial covenant requirements as set forth in our senior secured credit facility. However, this event of non-compliance was cured on November 14, 2007 through the exercise of a cure right as provided for in the credit agreement. The cure right provides us the right to issue permitted cure securities in exchange for cash or otherwise receive cash that would be contributed to our capital in an amount that is necessary to satisfy the financial covenant requirement on a pro-forma basis. The cure right capital contribution amount is considered additional consolidated EBITDA, as defined in our credit agreement, for purposes of measuring compliance with the financial covenants for our fiscal quarter ended September 30, 2007. In subsequent periods, this cure amount will continue to be considered a component of consolidated EBITDA on a trailing 4 quarter calculation basis. Additionally, the cure amount is limited such that it can be no greater than the amount required for purposes of complying with the financial covenants in the quarter in which it is exercised nor can this cure right be exercised more than two times in any trailing 4 quarter period, with the exception of two additional cure rights that were included in Amendment No. 2 discussed below.

The cure right cash contribution of \$6 million necessary to cure our non-compliance with the financial covenants tested as of September 30, 2007, was received by our parent company from affiliates of The Carlyle Group, on November 14, 2007. Our parent company in turn contributed these funds to the capital of the Company through certain intermediate subsidiaries. As a result of the exercise of this cure, we were deemed to have met the financial covenants contained in our senior secured credit facility as of September 30, 2007.

On December 6, 2007, we entered into Amendment No. 2 to the Company's senior secured credit facility ("Amendment No. 2"), which modified certain financial covenants starting for the period ending December 31, 2007, further increased the spread on the variable interest rate, and reduced the revolving credit facility to \$60 million from \$75 million. Additionally, Amendment No. 2 designated up to two additional cure rights that can be exercised at any time during the term of the loan, provided that for quarters ending on or after June 30, 2008, the leverage ratio, as defined in the credit agreement, on the last day of such fiscal quarter is not more than 0.50 to 1.00 above the leverage ratio requirement for such quarter. Based upon amounts outstanding under the senior secured credit facility and the applicable margins at the time of the amendment, we estimated that the increase in the spread on the variable interest rate would result in additional annual interest expense of approximately \$2.5 million. This is in addition to the estimated increase in interest expense pursuant to Amendment No. 1.

We may not be able to continue to satisfy the covenant requirements in subsequent periods. If we are unable to maintain compliance with the covenants contained in our senior secured credit facility, an event of default would occur. During the continuation of an event of default, the lenders under the senior secured credit facility are entitled to take various actions, including accelerating amounts due under the senior secured credit facility, terminating our access to our revolving credit facility and all other actions generally available to a secured creditor. An uncured event of default would have a material adverse effect on our financial position, results of operations and cash flow.

We believe that our cash on hand, expected cash flows from operations, potential availability of borrowings under the revolving portion of our senior secured credit facility, and funds available under a master lease agreement will be sufficient to finance our operations, and meet our scheduled debt service requirements for at least the next twelve months.

## **Forward-Looking Statements**

This press release includes forward-looking statements regarding, among other items, operations, proposed regulations and their possible effect 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, failure to maintain compliance with our debt covenants, 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, litigation matters and availability of insurance. Further information about factors that could affect the Company's financial and other results is included in our Form 10-K as filed on March 28, 2008, 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. For the trailing 12-month period ended December 31, 2007, Credit Agreement EBITDA was \$47.5 million, including the \$6 million cure amount discussed previously.

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LifeCare, based in Plano, Texas, operates 19 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 1**  
**Condensed Consolidated Statements of Operations**  
**For the Three Months Ended December 31, 2006 and 2007**  
(In thousands)  
(Unaudited)

	<u>2006</u>	<u>2007</u>	<u>% Change</u>
Net patient service revenue	\$ 79,868	\$ 79,739	-0.2%
Expenses:			
Salaries, wages and benefits	36,765	38,521	4.8%
Supplies	7,281	8,509	16.9%
Rent	4,541	5,953	31.1%
Other operating expense	17,087	16,970	-0.7%
Provision for doubtful accounts	3,385	453	-86.6%
Depreciation and amortization	3,054	2,570	-15.8%
Goodwill impairment charges	19,000	35,000	84.2%
Long-lived asset impairment charges	945	-	NM
Interest expense, net	8,234	9,445	14.7%
	<u>100,292</u>	<u>117,421</u>	<u>17.1%</u>
Operating loss	(20,424)	(37,682)	84.5%
Equity in loss of joint venture	-	(246)	NM
Loss before income taxes	(20,424)	(37,928)	85.7%
Provision for (benefit from) income taxes	(802)	2,729	-440.3%
Net loss	<u>\$ (19,622)</u>	<u>\$ (40,657)</u>	<u>107.2%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating loss - per above	\$ (20,424)	\$ (37,682)	
Adjusted for:			
Interest expense, net	8,234	9,445	
Depreciation and amortization	3,054	2,570	
Goodwill impairment charges	19,000	35,000	
Stock compensation expense	164	169	
Cost saving initiatives	-	320	
Hospital closure/relocation/start-up losses	1,602	2,799	
Sarbanes Oxley implementation	-	366	
New Orleans operations	297	(6)	
Other credit agreement add-back items	406	127	
Credit Agreement EBITDA	<u>\$ 12,333</u>	<u>\$ 13,108</u>	

**Schedule 2**  
**Condensed Consolidated Statements of Operations**  
**For the Year-Ended December 31, 2006 and 2007**  
**(In thousands)**  
**(Unaudited)**

	<u>2006</u>	<u>2007</u>	<u>% Change</u>
Net patient service revenue	\$ 325,882	\$ 322,215	-1.1%
Expenses:			
Salaries, wages and benefits	145,340	156,125	7.4%
Supplies	32,144	33,460	4.1%
Rent	18,080	21,644	19.7%
Other operating expense	77,206	80,257	4.0%
Provision for doubtful accounts	7,673	4,740	-38.2%
Depreciation and amortization	11,856	11,254	-5.1%
Goodwill impairment charges	43,600	38,834	-10.9%
Insurance recovery	(5,333)	-	NM
Gain on early extinguishment of debt	(1,329)	-	NM
Loss of disposition of assets	945	-	NM
Interest expense, net	32,819	35,911	9.4%
	<u>363,001</u>	<u>382,225</u>	<u>5.3%</u>
Operating loss	(37,119)	(60,010)	61.7%
Equity in loss of joint venture	-	(695)	NM
Loss before income taxes	(37,119)	(60,705)	63.5%
Provision for income taxes	3,707	77	-97.9%
Net loss	<u>\$ (40,826)</u>	<u>\$ (60,782)</u>	<u>48.9%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating loss - per above	\$ (37,119)	\$ (60,010)	
Adjusted for:			
Gain on early extinguishment of debt	(1,329)	-	
Loss of disposition of assets	945	-	
Interest expense, net	32,819	35,911	
Depreciation and amortization	11,856	11,254	
Goodwill impairment charge	43,600	38,834	
Stock compensation expense	632	695	
Severance	-	2,918	
Cost report adjustment	3,871	-	
Cost saving initiatives	-	3,648	
Hospital closure/relocation/start-up losses	3,198	5,967	
Sarbanes Oxley implementation	-	1,477	
New Orleans operations, net of proceeds	(3,573)	86	
Other credit agreement add-back items	<u>2,850</u>	<u>713</u>	
Credit Agreement EBITDA	57,750	41,493	
Exercise of cure right for quarter ended September 30, 2007	<u>-</u>	<u>5,999</u>	
Pro Forma Credit Agreement EBITDA	<u>\$ 57,750</u>	<u>\$ 47,492</u>	

**Schedule 3**  
**Condensed Consolidated Balance Sheets**  
**(In thousands)**  
**(Unaudited)**

<b>Assets</b>	<b>December 31, 2006</b>	<b>December 31, 2007</b>
Current assets:		
Cash and cash equivalents	\$ 33,250	\$ 17,816
Accounts receivable, net	67,464	66,911
Income taxes receivable	6,418	2,025
Other current assets	17,662	13,597
Total current assets	<u>124,794</u>	<u>100,349</u>
Property and equipment, net	78,418	83,317
Goodwill and other identifiable intangibles, net	318,745	282,415
Other assets	14,461	15,675
	<u>\$ 536,418</u>	<u>\$ 481,756</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Payables and accruals	\$ 45,346	\$ 42,285
Estimated third-party payer settlements	8,308	5,744
Current installments of long-term debt	3,188	2,550
Current installments of obligations under capital leases	3,925	1,604
Total current liabilities	<u>60,767</u>	<u>52,183</u>
Long-term debt, excluding current installments	396,262	393,713
Obligations under capital leases, excluding current installments	1,909	741
Lease financing obligation	-	16,590
Accrued insurance	5,902	4,714
Other noncurrent liabilities	21,080	13,582
Total liabilities	<u>485,920</u>	<u>481,523</u>
Stockholder's equity	50,498	233
	<u>\$ 536,418</u>	<u>\$ 481,756</u>

**Schedule 4**  
**Condensed Consolidated Statements of Cash Flows**  
**For the year-ended December 31, 2006 and 2007**  
**(In thousands)**  
**(Unaudited)**

	<u>2006</u>	<u>2007</u>
Cash flows from operating activities:		
Net loss	\$ (40,826)	\$ (60,782)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,102	12,893
Provision for doubtful accounts	7,673	4,740
Impairment charges	43,600	38,834
Gain on early extinguishment of debt	(1,329)	-
Loss on disposition of asset	945	-
Equity in loss of joint venture	-	695
Deferred income taxes	(2,524)	1,695
Equity compensation amortization	632	684
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,854)	(4,187)
Other current assets	15,150	4,006
Other assets	(1,209)	77
Estimated third-party payer settlements	16,574	(2,564)
Accounts payable and accrued expenses	5,962	(5,353)
Other liabilities	3,777	(589)
Net cash provided by (used in) operating activities	<u>49,673</u>	<u>(9,851)</u>
Cash used in investing activities:		
Purchases of property and equipment	(28,235)	(47,480)
Sale leaseback proceeds	788	31,104
Net cash used in investing activities	<u>(27,447)</u>	<u>(16,376)</u>
Cash flows provided by (used in) financing activities:		
Deferred financing costs	-	(3,142)
Lease financing obligation proceeds	-	15,113
Equity contribution from parent	-	5,999
Payments of notes payable and long-term debt	(3,443)	(3,188)
Payments on obligations under capital leases	(5,376)	(3,989)
Net cash provided by (used in) financing activities	<u>(8,819)</u>	<u>10,793</u>
Net increase (decrease) in cash and cash equivalents	13,407	(15,434)
Cash and cash equivalents, beginning of period	19,843	33,250
Cash and cash equivalents, end of period	<u>\$ 33,250</u>	<u>\$ 17,816</u>

**Schedule 5**  
**Selected Operating Statistics**

	<b>Three months ended December 31, 2006</b>	<b>Three months ended December 31, 2007</b>
Number of hospitals within hospitals (end of period)	12	9
Number of freestanding hospitals (end of period)	8	10
Number of total hospitals (end of period)	20	19
Licensed beds (end of period)	926	1,009
Average licensed beds (1)	905	1,009
Admissions	2,099	2,131
Patient days	56,410	57,437
Occupancy rate	67.8%	61.9%
Percent net patient service revenue from Medicare	72.1%	64.0%
Percent net patient service revenue from commercial payors and Medicaid (2)	27.9%	36.0%
Net patient service revenue per patient day	\$1,416	\$1,390

	<b>Year-ended ended December 31, 2006</b>	<b>Year-ended ended December 31, 2007</b>
Number of hospitals within hospitals (end of period)	12	9
Number of freestanding hospitals (end of period)	8	10
Number of total hospitals (end of period)	20	19
Licensed beds (end of period)	926	1,009
Average licensed beds (1)	889	961
Admissions	8,318	7,999
Patient days	226,863	229,479
Occupancy rate	69.9%	65.4%
Percent net patient service revenue from Medicare	71.6%	64.6%
Percent net patient service revenue from commercial payors and Medicaid (2)	28.4%	35.4%
Net patient service revenue per patient day	\$1,436	\$1,404

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(1) The licensed beds are only calculated on the beds at locations that were open for operations during the applicable periods.

(2) The percentage of net patient service revenue from Medicaid is less than one percent for each of the periods presented.