

## **LifeCare Holdings, Inc.**

**News Release  
For Immediate Release  
November 14, 2007**

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### **LifeCare Holdings, Inc. Announces Third Quarter Results**

**Plano, TEXAS** – LifeCare Holdings, Inc. (the “Company”) today announced its operating results for the three- and nine-month periods ended September 30, 2007.

#### ***Three Months Ended September 30, 2007***

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

Our net patient service revenue of \$77.6 million for the three months ended September 30, 2007, increased by \$0.1 million as compared to the same period in 2006. Patient days increased by 289 during the 2007 period. During the three months ended September 30, 2007, our net patient service revenue per patient day was \$1,394 as compared to \$1,400 per patient day for the same period in 2006, which represents a decrease of 0.4%. This decrease on a per patient day basis was primarily the result of the recent unfavorable reimbursement changes implemented by CMS during 2006 and 2007.

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

Total expenses increased by \$11.6 million to \$92.6 million for the three months ended September 30, 2007 as compared to \$81.0 million for the comparable period in 2006.

Of this \$11.6 million increase in total expenses, \$3.8 million related to goodwill impairment charges and \$2.5 million was attributable to compensation and benefits accrued in connection with the departure of the CEO during the three months ended September 30, 2007. Rent expense increased by \$1.0 million during the 2007 period in connection with the increases in bed capacity. Net interest expense increased by \$0.4 million during the 2007 period from an increase in LIBOR rates and the increased margin spread as the result of the amendment to our senior secured credit facility discussed further in the Liquidity and Capital Resources section contained herein. The remaining unfavorable variance of \$3.9 million was related to increases in salaries, wages and benefits, supplies, outside services and contract labor expenses incurred as the result of inflationary increases and the increases in bed capacity.

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

For the quarter ended September 30, 2007, adjusted EBITDA as defined in the credit agreement to our senior secured credit facility, which we refer to as Credit Agreement EBITDA, was \$4.7 million, which is a decrease of \$5.8 million, or 55.3% 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. The decrease in Credit Agreement EBITDA, on a dollar and percentage of net patient service revenue basis from the same period in the prior year, was primarily due to the increase in expenses discussed previously. However, for the quarter ended

September 30, 2007, we exercised a cure right as provided in the credit agreement whereby pro forma adjusted EBITDA for financial covenant tests as of September 30, 2007 was increased by \$6.0 million to \$10.7 million on a pro forma basis. See additional discussion regarding this cure right in the Liquidity and Capital Resources section contained herein.

### ***Nine Months Ended September 30, 2007***

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

Our net patient service revenue decreased by \$3.5 million, or 1.4%, for the nine months ended September 30, 2007, to \$242.5 million from \$246.0 million for the comparable period in 2006. This decrease in net patient service revenue was comprised of a \$2.3 million favorable benefit from a 0.9% increase in patient days and an unfavorable \$8.6 million variance as the result of decreased revenue per patient day, offset by a net increase of \$2.8 million attributable to a decrease in unfavorable adjustments related to previously filed cost reports.

During the nine months ended September 30, 2007 and 2006, we recorded reductions in net patient service revenue of \$0.7 million and \$3.6 million, respectively, related to changes in estimates and settlements on cost reports filed with the Medicare program. The adjustment recognized during the nine months ended September 30, 2006 related 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 nine months ended September 30, 2007 and 2006, was \$1,409 and \$1,443, respectively. However, exclusive of the cost report reimbursement adjustments discussed previously, net patient service revenue per patient day for the nine months ended September 30, 2007 and 2006 was \$1,414 and \$1,464, respectively. 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 implemented by CMS for all discharges on or after July 1, 2006 and the unfavorable reduction in DRG weights for all discharges on or after October 1, 2006, partially offset by an increase in the percentage of our revenues generated from commercial payors.

#### ***Total Expenses***

Total expenses decreased by \$2.1 million to \$264.8 million for the nine months ended September 30, 2007 as compared to \$262.7 million for the comparable period in 2006. Included in the expenses for the nine month period ending September 30, 2007, is a \$3.8 million impairment charge related to goodwill and \$2.5 million attributable to compensation and benefits accrued in connection with the departure of the CEO during the three months ended September 30, 2007, as discussed previously. Included in the expenses for the 2006 period is an impairment charge of \$24.6 million related to goodwill, a gain of \$1.3 million related to the early extinguishment of debt, and \$5.3 million in insurance recovery related to Hurricane Katrina. Gain on early extinguishment of debt for the nine months ended September 30, 2006 was the result of our repurchasing \$3 million in face of our senior subordinated notes for an amount approximating \$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 \$13.7 million from the same period in prior year. Rent expenses increased by \$2.1 million

during the 2007 period in connection with the increases in bed capacity. Net interest expense increased by \$1.9 million during the 2007 period from an increase in LIBOR rates and the increased margin spread as the result of the amendment to our senior secured credit facility discussed further in the Liquidity and Capital Resources section contained herein. The remaining \$9.7 million increase in expenses was primarily attributable to an increase in salaries, wages and benefits of \$6.5 million, and an increase in outside services, contract labor and other operating expenses of \$3.2 million. These increases were due to the result of inflationary increases and the increases in bed capacity and patient days.

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

For the nine months ended September 30, 2007, Credit Agreement EBITDA, was \$26.5 million, a decrease of \$18.9 million, or 41.7% 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. However, for the quarter ended September 30, 2007, we exercised a cure right as provided in the credit agreement whereby pro forma adjusted EBITDA for the nine months ended September 30, 2007 for financial covenant tests as of September 30, 2007 was increased by \$6.0 million to \$32.5 million on a pro forma basis. See additional discussion regarding this cure right in the Liquidity and Capital Resources section contained herein.

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

At September 30, 2007, our outstanding indebtedness consisted of \$147.0 million aggregate principal amount of senior subordinated notes, a \$249.9 million term loan facility with a maturity of seven years, and capital lease obligations of \$3.0 million with varying maturities.

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, breach of representations and warranties, covenant defaults, cross defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments, actual or asserted failure of any guaranty or security document supporting the senior secured credit facility to be in full force and effect, change of control, and certain other provisions.

On May 2, 2007, we entered into Amendment No. 1 for the senior secured credit facility ("Amendment No. 1"). Amendment No. 1 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 presently outstanding under the senior secured credit facility and current interest rates, Amendment No. 1 will result in an increase in annual interest expense of approximately \$1.9 million.

The interest rates per annum applicable to loans, other than swingline loans, under our senior secured credit facility 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 are currently (1) 2.25% for alternate base rate revolving loans, (2) 3.25% for adjusted LIBOR revolving loans, (3) 2.25% for alternate base rate term loans, and (4) 3.25% 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 and Amendment Number 1 to the credit agreement). At September 30, 2007, the interest rate applicable to the \$249.9 million under our term loan facility was 8.20%.

As of September 30, 2007 we were not in compliance with the financial covenant requirements as set forth in the credit agreement for the 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 four-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 nor can this cure right be exercised more than two times in any trailing four-quarter period.

The cure right cash contribution necessary to cure our non-compliance with the financial covenants tested as of September 30, 2007, which was \$6.0 million, was received by our ultimate parent company, which we refer to as Holdings, from affiliates of The Carlyle Group, on November 14, 2007. Holdings 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 are currently in compliance with the covenants of the credit agreement as amended, and we are deemed to have satisfied the requirements of such financial covenants as of September 30, 2007.

On November 7, 2007, we announced that we would be seeking an amendment to our credit agreement that would address, among other items, future covenant requirements. There can be no assurance that we will be able to obtain any amendment to our credit agreement on the terms to be proposed by us or at all. If we are able to execute an amendment and obtain a waiver, it is likely we will incur one-time fees and expenses, and will be required to pay a higher interest margin on our outstanding indebtedness in subsequent periods.

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 continuance of an event of a 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 permitted to be taken by a secured creditor. An event of default could 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 facilities, and funds available under the Master Lease will be sufficient to finance our operations, and meet our scheduled debt service requirements for at least the next twelve months.

On May 2, 2007, LifeCare REIT 1, Inc. (“Tenant”), a subsidiary of the Company entered into a Master Lease Agreement (“Lease”) with Health Care REIT, Inc. and HCRI Texas Properties, LTD (collectively, the “Landlord”) in connection with the sale and leaseback of a 62-bed long term acute care hospital being constructed by the Company in San Antonio, Texas (“San Antonio Facility”). As of Sept 30, 2007, the San Antonio Facility opened for business, at which point the operational lease commenced. The base rent is approximately \$1.2 million per year, and is subject to annual inflationary adjustments. The inflationary adjustments, which are not to exceed a cumulative average of 0.25% per annum, are tied to the Medicare long term acute care market basket inflation rate, as determined by the Centers for Medicare and Medicaid Services. As of September 30, 2007, the Landlord had made payments of \$13.6 million to the Company towards the estimated total purchase price of \$15.7 million for the San Antonio Facility. No gain will be recognized from this transaction.

On June 6, 2007, Tenant amended the Master Lease Agreement (“Amended Lease”) with Health Care REIT, Inc., HCRI Texas Properties, LTD and HCRI Wisconsin Properties, LLC (collectively, the “Milwaukee Landlord”) to include the sale and leaseback of a 62-bed long term acute care hospital being

constructed by the Company in Milwaukee, Wisconsin (“Milwaukee Facility”). The base rent is approximately \$2.5 million per year, and is subject to annual inflation adjustments. The inflationary adjustments, which are not to exceed a cumulative average of 0.25% per annum, are tied to the Medicare long term acute care market basket inflation rate, as determined by the Centers for Medicare and Medicaid Services. As of September 30, 2007, the Milwaukee Landlord had made payments of \$19.1 million to the Company towards the estimated total purchase price of \$25.6 million for the Milwaukee Facility. No gain will be recognized from this transaction.

The initial term of the leases for these facilities will be 15 years, and the Tenant has one 15-year renewal option. The initial rent under the Amended Lease will be computed based on a predetermined spread over the rate of a 15-year U.S. Treasury Note and will be subject to an annual inflation adjustment. The Lease is an “absolute net lease” and contains customary covenants, representations and warranties. The Company and its subsidiary, LifeCare Hospitals of Milwaukee, Inc. and San Antonio Specialty Hospitals, LTD, entered into an Amended and Restated Unconditional and Continuing Lease Guaranty with the Landlord.

We entered into a separate Master Lease Agreement with Health Care REIT, Inc. on September 1, 2006, to acquire and develop hospital facilities. The first facility to be developed under this Master Lease is our Boise, Idaho facility, which is currently under construction. The total project cost of this facility is expected to approximate \$18.5 million. Through September 30, 2007, we have incurred capital expenditure of \$12.1 million for the facility, and Health Care REIT, Inc. has made payments to us approximating \$10.5 million as reimbursement for these capital expenditures. This particular facility under this Master Lease will be accounted for as a lease financing obligation with the asset remaining capitalized upon completion.

### ***CMS Fiscal 2008 Changes***

#### *Medicare Reimbursement Changes for Fiscal 2008*

On May 1, 2007, CMS issued changes to the Medicare hospital payment system that are effective for discharges occurring on or after July 1, 2007. The final rule was amended on June 29, 2007 by revising the high cost outlier threshold. CMS estimates these changes will reduce overall payments to LTAC hospitals by 1.2% in the first year of implementation. These changes include: (a) a 0.71% increase to the standard federal payment rate from \$38,086 to \$38,356; (b) revisions to payment methodologies impacting short-stay outliers; (c) adjustments to the wage index component of the federal payment; (d) an extension of the policy known as the “25 Percent Rule” to all LTAC hospitals, including those previously exempted due to a “grandfather status,” with a three year phase-in; and (e) an increase in the high-cost outlier fixed-loss threshold amount from \$14,887 to \$20,738. The proposed short-stay outlier revisions include the creation of a new payment category for discharged cases having lengths of stay less than or equal to the geometric mean length of stay for patients with the same diagnosis in short-term acute care hospitals. Payment for these cases would be similar to that received by a short-term acute care hospital for the same diagnosis.

CMS also states that the annual update to the DRG classifications and relative weights will be made in a budget neutral manner, effective October 1, 2007. As such, the estimated aggregate industry LTAC PPS payments would be unaffected by the annual recalibration of DRG payment weights.

While we believe that the new policy will reduce our Medicare reimbursement, we will attempt to mitigate the effect of these recent regulatory changes. There can be no guarantee that such efforts will be successful.

## *CMS Changes to DRG Weighting for Fiscal 2008*

On August 1, 2007, CMS issued final inpatient prospective payment system (IPPS) regulations for fiscal year 2008. These regulations establish a new Medicare severity-based patient classification system for fiscal year 2008, called the Medicare-Severity DRGs (or MS-DRGs) or MS-LTAC-DRGs for LTAC hospitals. The MS-LTAC-DRG system creates additional severity-adjusted categories for most diagnoses, resulting in an expansion of the number of DRGs from 538 to 745. CMS states that MS-LTAC-DRG weights were developed in a budget neutral manner and as such, the estimated aggregate payments under LTAC PPS would be unaffected by the annual recalibration of MS-LTAC-DRG payment weights. CMS has provided for a two-year phase-in period to mitigate the transition in payments for IPPS and LTAC PPS providers. In fiscal 2008 provider reimbursement will be based 50% on new MS-LTAC-DRGs and 50% on existing DRGs. For fiscal 2009 100% will be based on new MS-LTAC-DRGs. We are not certain what impact these regulations will have on our operations and financial performance in future periods.

### **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 April 2, 2007, 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 September 30, 2007, Credit Agreement EBITDA was \$46.0 million, including the \$6.0 million cure 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 September 30, 2006 and 2007**  
**(In thousands)**  
**(Unaudited)**

	<u>2006</u>	<u>2007</u>	<u>% Change</u>
Net patient service revenue	\$ 77,437	\$ 77,553	0.1%
Expenses:			
Salaries, wages and benefits	36,224	40,389	11.5%
Supplies	8,027	8,191	2.0%
Rent	4,714	5,712	21.2%
Other operating expense	19,297	21,180	9.8%
Provision for doubtful accounts	1,326	1,404	5.9%
Depreciation and amortization	2,948	2,952	0.1%
Goodwill impairment charges	-	3,834	NM
	<u>72,536</u>	<u>83,662</u>	<u>15.3%</u>
Operating income (loss)	4,901	(6,109)	-224.6%
Interest expense, net	8,502	8,967	5.5%
Equity in loss of joint venture	-	(106)	NM
Loss before income taxes	<u>(3,601)</u>	<u>(15,182)</u>	<u>321.6%</u>
Provision for income taxes	(215)	(1,953)	808.4%
Net loss	<u>\$ (3,386)</u>	<u>\$ (13,229)</u>	<u>290.7%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income (loss) - per above	\$ 4,901	\$ (6,109)	
Adjusted for:			
Depreciation and amortization	2,948	2,952	
Goodwill impairment charges	-	3,834	
Stock compensation expense	287	194	
Severance	-	2,468	
Cost saving initiatives	153	195	
South Texas closure/relocation	956	-	
Start-up losses	490	1,283	
Sarbanes Oxley implementation	-	249	
New Orleans operations	230	18	
Other credit agreement add-back items	542	(388)	
Credit Agreement EBITDA	10,507	4,696	
Exercise of cure right for quarter ended September 30, 2007	-	5,999	
Pro Forma Credit Agreement EBITDA	<u>\$ 10,507</u>	<u>\$ 10,695</u>	



**Schedule 2**  
**Condensed Consolidated Statements of Operations**  
**For the Nine Months Ended September 30, 2006 and 2007**  
**(In thousands)**  
**(Unaudited)**

	<u>2006</u>	<u>2007</u>	<u>% Change</u>
Net patient service revenue	\$ 246,014	\$ 242,475	-1.4%
Expenses:			
Salaries, wages and benefits	108,575	117,604	8.3%
Supplies	24,863	24,951	0.4%
Rent	13,539	15,691	15.9%
Other operating expense	60,119	63,286	5.3%
Provision for doubtful accounts	4,288	4,287	0.0%
Depreciation and amortization	8,802	8,685	-1.3%
Goodwill impairment charges	24,600	3,834	NM
Insurance recovery	(5,333)	-	NM
	<u>239,453</u>	<u>238,338</u>	<u>-0.5%</u>
Operating income	6,561	4,137	-36.9%
Interest expense, net	24,585	26,466	7.7%
Gain on early extinguishment of debt	(1,329)	-	-100.0%
Equity in loss of joint venture	-	(448)	NM
Loss before income taxes	(16,695)	(22,777)	36.4%
Provision for income taxes	4,509	(2,652)	-158.8%
Net loss	<u>\$ (21,204)</u>	<u>\$ (20,125)</u>	<u>-5.1%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income - per above	\$ 6,561	\$ 4,137	
Adjusted for:			
Depreciation and amortization	8,802	8,685	
Goodwill impairment charge	24,600	3,834	
Stock compensation expense	468	526	
Severance	779	2,918	
Cost report adjustment	3,871	-	
Cost saving initiatives	679	2,280	
South Texas closure/relocation	1,074	-	
Start-up losses	1,468	2,218	
Sarbanes Oxley implementation	-	1,111	
Shreveport campus closure	-	543	
New Orleans operations, net of proceeds	(3,869)	92	
Other credit agreement add-back items	983	137	
Credit Agreement EBITDA	45,416	26,481	
Exercise of cure right for quarter ended September 30, 2007	-	5,999	
Pro Forma Credit Agreement EBITDA	<u>\$ 45,416</u>	<u>\$ 32,480</u>	

**Schedule 3**  
**Trailing 12-months Credit Agreement EBITDA**  
**For the 12-month period ended September 30, 2007**  
**(In thousands)**  
**(Unaudited)**

	<b>Trailing 12-months ended September 30, 2007</b>
	<u>September 30, 2007</u>
Reconciliation to Credit Agreement EBITDA:	
Net loss	\$ (39,746)
Depreciation and amortization	11,739
Interest expense, net	34,699
Income taxes	(3,454)
Goodwill impairment charge	22,834
Stock compensation expense	690
Severance	3,161
Cost saving initiatives	3,354
Start-up losses	1,790
Hospital closures and relocations	1,370
New Orleans operations (including joint venture losses)	837
Sarbanes Oxley implementation	1,111
Other credit agreement add-back items	<u>1,656</u>
Credit Agreement EBITDA	\$ 40,041
Exercise of cure right for quarter ended September 30, 2007	5,999
Pro Forma Credit Agreement EBITDA	<u><u>\$ 46,040</u></u>

**Schedule 4**  
**Condensed Consolidated Balance Sheets**  
**(In thousands)**  
**(Unaudited)**

<b>Assets</b>	<b>December 31, 2006</b>	<b>September 30, 2007</b>
Current assets:		
Cash and cash equivalents	\$ 33,250	\$ 13,571
Accounts receivable, net	67,464	70,586
Income taxes receivable	6,418	8,586
Other current assets	17,662	24,205
Total current assets	124,794	116,948
Property and equipment, net	78,418	78,797
Goodwill and other identifiable intangibles, net	318,745	317,890
Other assets	14,461	14,534
	<u>\$ 536,418</u>	<u>\$ 528,169</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities:		
Payables and accruals	\$ 45,346	\$ 52,567
Estimated third-party payer settlements	8,308	424
Current installments of long-term debt	3,188	2,550
Current installments of obligations under capital leases	3,925	2,241
Total current liabilities	60,767	57,782
Long-term debt, excluding current installments	396,262	394,350
Obligations under capital leases, excluding current installments	1,909	770
Lease financing obligation	-	12,052
Accrued insurance	5,902	6,427
Other noncurrent liabilities	21,080	22,062
Total liabilities	485,920	493,443
Stockholder's equity	50,498	34,726
	<u>\$ 536,418</u>	<u>\$ 528,169</u>

**Schedule 5**  
**Condensed Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2006 and 2007**  
**(In thousands)**  
**(Unaudited)**

	<u>2006</u>	<u>2007</u>
Cash flows from operating activities:		
Net loss	\$ (21,204)	\$ (20,125)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,691	9,865
Provision for doubtful accounts	4,288	4,287
Impairment charges	24,600	3,834
Gain on early extinguishment of debt	(1,329)	-
Equity in loss of joint venture	-	448
Deferred income taxes	(2,933)	2,087
Equity compensation amortization	467	519
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,622)	(7,409)
Other current assets	15,590	(3,123)
Other assets	(1,429)	(131)
Estimated third-party payer settlements	12,209	(7,884)
Accounts payable and accrued expenses	(398)	3,322
Other liabilities	6,295	1,509
Net cash provided by (used in) operating activities	<u>35,225</u>	<u>(12,801)</u>
Cash used in investing activities:		
Purchases of property and equipment	(16,000)	(37,252)
Sale leaseback proceeds	788	26,669
Net cash used in investing activities	<u>(15,212)</u>	<u>(10,583)</u>
Cash flows provided by (used in) financing activities:		
Deferred financing costs	-	(1,089)
Lease financing obligation proceeds	-	10,466
Payments of notes payable and long-term debt	(3,443)	(2,550)
Payments on obligations under capital leases	(4,212)	(3,122)
Net cash provided by (used in) financing activities	<u>(7,655)</u>	<u>3,705</u>
Net increase (decrease) in cash and cash equivalents	12,358	(19,679)
Cash and cash equivalents, beginning of period	19,843	33,250
Cash and cash equivalents, end of period	<u>\$ 32,201</u>	<u>\$ 13,571</u>

**Schedule 6**  
**Selected Operating Statistics**

	<b>Three months ended September 30, 2006</b>	<b>Three months ended September 30, 2007</b>
Number of hospitals within hospitals (end of period)	13	9
Number of freestanding hospitals (end of period)	6	10
Number of total hospitals (end of period)	19	19
Licensed beds (end of period)	894	1,008
Average licensed beds (1)	867	976
Admissions	2,033	1,972
Patient days	55,327	55,616
Occupancy rate	69.4%	61.9%
Percent net patient service revenue from Medicare	72.0%	60.3%
Percent net patient service revenue from commercial payors and Medicaid (2)	28.0%	39.7%
Net patient service revenue per patient day	\$1,400	\$1,394

	<b>Nine months ended September 30, 2006</b>	<b>Nine months ended September 30, 2007</b>
Number of hospitals within hospitals (end of period)	13	9
Number of freestanding hospitals (end of period)	6	10
Number of total hospitals (end of period)	19	19
Licensed beds (end of period)	894	1,008
Average licensed beds (1)	884	944
Admissions	6,219	5,868
Patient days	170,453	172,042
Occupancy rate	70.6%	66.8%
Percent net patient service revenue from Medicare	71.5%	64.3%
Percent net patient service revenue from commercial payors and Medicaid (2)	28.5%	35.7%
Net patient service revenue per patient day	\$1,443	\$1,409

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(1) The licensed beds are only calculated on the beds at locations that were open for operations during the applicable period, and exclude beds at locations prior to openings, or subsequent to closures.

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