

## **LifeCare Holdings, Inc.**

**News Release  
For Immediate Release  
May 15, 2008**

**Contact: Chris A. Walker  
469-241-2116**

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

**Plano, TEXAS** – LifeCare Holdings, Inc. (the “Company”) today announced its operating results for the first quarter ended March 31, 2008.

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

Our net patient service revenue increased by \$6.4 million, or 7.8%, for the three months ended March 31, 2008, to \$88.8 million from \$82.4 million for the comparable period in 2007. Patient days in the 2008 period were 3,480, or 6.0%, greater than the same period in 2007.

The increase in our net patient service revenue was comprised of a favorable benefit of \$4.9 million from the increase in patient days and \$1.5 million as the result of higher rates on a per patient day basis. During the three months ended March 31, 2008, our net patient service revenue per patient day was \$1,438, which represented an increase of 1.7% compared to the same period in 2007. The increase in net patient service revenue on a per patient day basis during the 2008 period was primarily the result of annual inflationary increases in our standard charge rates and certain of our contracts with commercial payors, our continued focus on treating higher acuity patients and an increase in the percentage of our revenues generated from commercial payors. These favorable items were partially offset by a decline in Medicare net patient service revenue per patient day from the unfavorable annual regulatory updates implemented by Medicare in July 2007.

#### ***Expenses***

Total expenses increased by \$6.6 million to \$91.5 million for the three months ended March 31, 2008 as compared to \$84.9 million for the same period in 2007. Of this \$6.6 million increase in total expenses, approximately \$3.1 million was attributable to an increase in salaries, wages, and benefits. This increase was due primarily to our increase in operating capacity, patient days and inflationary increases.

The remaining \$3.5 million of the total \$6.6 million increase was comprised of an increase in rent expense of \$1.0 million and an increase of \$1.4 million in interest expense, in addition to net increases in other expense categories. The increase in rent expense was the result of a 9.3% increase in the number of licensed beds operated by the Company during the current period. The increase in interest expense was the result of a higher margin spread on our senior secured credit facility during the 2008 period as compared to the 2007 period as the result of the amendments to our senior secured credit facility during 2007.

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

For the quarter ended March 31, 2008, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$13.3 million, an increase of \$2.6 million, or 23.9% from the prior year period. Credit Agreement EBITDA reflects the elimination of start-up costs and certain other non-recurring/operational expenditures as defined in our credit agreement.

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

At March 31, 2008, our outstanding indebtedness consisted of \$147.0 million aggregate principal amount of senior subordinated notes due 2013 and a \$248.6 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. As of March 31, 2008, we were in compliance with all covenants contained in our senior secured credit facility, as amended.

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 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, 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, 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. For the trailing 12-month period ended March 31, 2008, Credit Agreement EBITDA was \$48.6 million, including a \$6 million cure exercised for the three-month period ended September 30, 2007.

\*\*\*\*

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 March 31, 2007 and 2008**  
(In thousands)  
(Unaudited)

	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Net patient service revenue	\$ 82,369	\$ 88,761	7.8%
Expenses:			
Salaries, wages and benefits	37,980	41,088	8.2%
Supplies	8,397	9,051	7.8%
Rent	5,122	6,170	20.5%
Other operating expense	20,683	20,735	0.3%
Provision for doubtful accounts	1,413	1,847	30.7%
Depreciation and amortization	2,844	2,753	-3.2%
	<u>76,439</u>	<u>81,644</u>	<u>6.8%</u>
Operating income	5,930	7,117	20.0%
Interest expense, net	8,476	9,834	16.0%
Loss before income taxes	<u>(2,546)</u>	<u>(2,717)</u>	<u>6.7%</u>
Provision (benefit) for income taxes	(851)	200	-123.5%
Net loss	<u>\$ (1,695)</u>	<u>\$ (2,917)</u>	<u>72.1%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating Income - per above	\$ 5,930	\$ 7,117	20.0%
Adjusted for:			
Depreciation and amortization	2,844	2,753	-3.2%
Stock compensation expense	164	102	-37.8%
Hospital closure/relocation/start-up losses	556	2,124	282.0%
Sarbanes Oxley implementation	549	406	-26.0%
Other credit agreement add-back items	697	809	16.1%
	<u>10,740</u>	<u>13,311</u>	<u>23.9%</u>
Credit Agreement EBITDA	<u>\$ 10,740</u>	<u>\$ 13,311</u>	<u>23.9%</u>

**Schedule 2**  
**Condensed Consolidated Balance Sheets**  
(In thousands)  
(Unaudited)

<b>Assets</b>	<b>December 31, 2007</b>	<b>March 31, 2008</b>
Current assets:		
Cash and cash equivalents	\$ 17,816	\$ 6,667
Accounts receivable, net	66,911	76,580
Income taxes receivable	2,025	1,821
Other current assets	13,597	12,584
Total current assets	<u>100,349</u>	<u>97,652</u>
Property and equipment, net	83,317	88,630
Goodwill and other identifiable intangibles, net	282,415	282,130
Other assets	15,675	15,091
	<u>\$ 481,756</u>	<u>\$ 483,503</u>
<b>Liabilities and Stockholder's Equity (Deficit)</b>		
Current liabilities:		
Payables and accruals	\$ 42,285	\$ 44,492
Current installments of long-term debt	2,550	2,550
Current installments of obligations under capital leases	1,604	1,565
Current installments of lease financing obligation	-	395
Estimated third-party payor settlements	5,744	3,625
Total current liabilities	<u>52,183</u>	<u>52,627</u>
Long-term debt, excluding current installments	393,713	393,075
Obligations under capital leases, excluding current installments	741	2,608
Lease financing obligation, excluding current installments	16,590	19,130
Accrued insurance	4,714	4,944
Other noncurrent liabilities	13,582	13,704
Total liabilities	<u>481,523</u>	<u>486,088</u>
Stockholder's equity (deficit)	233	(2,585)
	<u>\$ 481,756</u>	<u>\$ 483,503</u>

**Schedule 3**  
**Condensed Consolidated Statements of Cash Flows**  
**For the three months ended March 31, 2007 and 2008**  
**(In thousands)**  
**(Unaudited)**

	<u>2007</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	\$ (1,695)	\$ (2,917)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,207	3,276
Provision for doubtful accounts	1,413	1,847
Equity compensation amortization	164	99
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,745)	(11,516)
Current income taxes	(1,389)	200
Prepaid expenses and other current assets	717	(788)
Other assets	(182)	61
Estimated third-party payer settlements	(8,382)	(2,119)
Accounts payable and accrued expenses	(3,871)	3,838
Other liabilities	405	352
Net cash used in operating activities	<u>(16,358)</u>	<u>(7,667)</u>
Cash used in investing activities:		
Purchases of property and equipment	(7,030)	(8,542)
Sales-leaseback proceeds	—	2,893
Net cash used in investing activities	<u>(7,030)</u>	<u>(5,649)</u>
Cash flows provided by (used in) financing activities:		
Lease financing obligation proceeds	—	1,800
Payments of notes payable and long-term debt	(638)	(638)
Proceeds from capital lease financing	—	1,802
Payments on obligations under capital leases	(1,089)	(797)
Net cash provided by (used in) financing activities	<u>(1,727)</u>	<u>2,167</u>
Net decrease in cash and cash equivalents	(25,115)	(11,149)
Cash and cash equivalents, beginning of period	33,250	17,816
Cash and cash equivalents, end of period	<u>\$ 8,135</u>	<u>\$ 6,667</u>
Supplemental disclosure of cash flow information:		
Cash:		
Interest paid	\$ 12,223	\$ 13,380
Income taxes paid, net of refunds	—	—
Noncash:		
Equipment purchased through capital lease financing	—	824

**Schedule 4**  
**Selected Operating Statistics**

	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2008</b>
Number of hospitals within hospitals (end of period)	11	9
Number of freestanding hospitals (end of period)	8	10
Number of total hospitals (end of period)	19	19
Licensed beds (end of period) (1)	922	1,009
Average licensed beds (1)	923	1,009
Admissions	1,990	2,266
Patient days	58,239	61,719
Occupancy rate	70.1%	67.2%
Percent net patient service revenue from Medicare	68.6%	62.4%
Percent net patient service revenue from commercial payors and Medicaid (2)	31.4%	37.6%
Net patient service revenue per patient day	\$1,413	\$1,438

(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.