

LifeCare Holdings, Inc.

**News Release
For Immediate Release
August 14, 2008**

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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 and six month periods ended June 30, 2008.

Three Months Ended June 30, 2008

Net Revenues

Our net patient service revenue increased by \$4.0 million, or 4.9%, for the three months ended June 30, 2008, to \$86.6 million from \$82.6 million for the comparable period in 2007. Patient days and admissions increased by 2.9% and 8.9%, respectively, during the three months ended June 30, 2008 as compared to the same period in 2007.

The increase in net patient service revenue was comprised of a \$2.4 million favorable benefit from an increase in patient days and a favorable \$1.6 million variance as the result of increased revenue per patient day. The increase in patient days and admissions were partially attributable to increases in our operating capacity.

During the three months ended June 30, 2008 our net patient service revenue per patient day was \$1,447, as compared to \$1,420 for the 2007 period. This increase 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 the unfavorable annual regulatory updates implemented by the Centers for Medicare and Medicaid Services (“CMS”) that became effective July 1, 2007.

Expenses

Total expenses increased by \$3.2 million to \$90.5 million for the three months ended June 30, 2008 as compared to \$87.3 million for the comparable period in 2007. Of the \$3.2 million increase in total expenses, \$2.6 million was in salaries, wages and benefits and \$1.7 million was in rent expense, offset by a \$0.9 million decrease in expense for the provision for doubtful accounts. The increase in salaries, wages and benefits and rent was the result of increases in our operating capacity and annual inflationary increases. The decrease in the provision for doubtful accounts was due to recent favorable collection trends.

Credit Agreement EBITDA

For the quarter ended June 30, 2008, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$10.8 million, an increase of \$0.2 million, or 2.3% 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. The increase in Credit Agreement EBITDA was primarily due to the increase in revenues associated with the increase in patient days, offset by the increase in expenses discussed previously.

Six Months Ended June 30, 2008

Net Revenues

Our net patient service revenue increased by \$10.5 million, or 6.3%, for the six months ended June 30, 2008, to \$175.4 million from \$164.9 million for the comparable period in 2007. Patient days and admissions increased by 4.4% and 11.4%, respectively, for the six months ended June 30, 2008 as compared to the same period in 2007.

The increase in net patient service revenue was comprised of a \$7.4 million favorable benefit from an increase in patient days and a favorable \$3.1 million variance as the result of increased revenue per patient day. The increase in patient days and admissions were partially attributable to increases in our operating capacity.

During the six months ended June 30, 2008 and 2007, our net patient service revenue per patient day was \$1,442 and \$1,417, respectively. The increase 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 the unfavorable annual regulatory updates implemented by CMS that became effective July 1, 2007.

Total Expenses

Total expenses increased by \$9.8 million to \$182.0 million for the six months ended June 30, 2008 as compared to \$172.2 million for the comparable period in 2007. Of the \$9.8 million increase in total expenses, \$5.7 million was in salaries, wages and benefits, \$2.7 million was in rent expense and \$1.4 million was in net interest expense.

The increase in salaries, wages and benefits was the result of a combination of the increase in patient days, and annual inflationary increases. The increase in rent expense was attributable to our increases in operating capacity. The increase in net interest expense was the result of higher interest rates during the 2008 period due to increased interest margins on our senior secured credit facility.

Credit Agreement EBITDA

For the six months ended June 30, 2008, Credit Agreement EBITDA, was \$24.1 million, an increase of \$1.3 million, or 5.8% from the prior year period. The increase in Credit Agreement EBITDA was primarily due to the increase in revenues associated with the increase in patient days, offset by the increase in expenses discussed previously.

Liquidity and Capital Resources

At June 30, 2008, our outstanding indebtedness consisted of \$147.0 million aggregate principal amount of senior subordinated notes due 2013, a \$248.0 million term loan facility and \$10.0 million outstanding under the \$60.0 million revolving credit facility that matures in 2012, and capital lease obligations of \$3.4 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. These financial covenants become more restrictive on a periodic basis throughout the remaining term of the senior secured credit facility beginning with the fiscal period ending December 31, 2008. In addition, the senior secured credit facility includes various negative covenants, including limitations on indebtedness, liens, investments, permitted businesses and transaction 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 subjective provisions. We believe we are currently in compliance with the covenants of 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. In the event a financial covenant is not met, our senior secured credit facility provides for certain limited cure rights which provide us the ability 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 required on a pro forma basis. The cure right amount, if exercised, continues to be considered a component of consolidated EBITDA, as defined in the senior secured credit agreement, on a trailing four-quarter basis. A cure right was exercised for the fiscal quarter ended September 30, 2007 in the amount of \$6.0 million. This cure amount has been a component of consolidated EBITDA for financial covenant purposes through the fiscal period ended June 30, 2008. This particular cure amount, however, will not be included in subsequent fiscal periods for financial covenant test purposes.

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 June 30, 2008, Credit Agreement EBITDA was \$42.8 million.

LifeCare, based in Plano, Texas, operates 20 long term acute care hospitals located in ten 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.

Schedule 1
Condensed Consolidated Statements of Operations
For the Three Months Ended June 30, 2007 and 2008
(In thousands)
(Unaudited)

	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Net patient service revenue	\$ 82,554	\$ 86,632	4.9%
Expenses:			
Salaries, wages and benefits	39,235	41,803	6.5%
Supplies	8,361	8,804	5.3%
Rent	4,856	6,558	35.0%
Other operating expense	21,425	20,842	-2.7%
Provision for doubtful accounts	1,471	601	-59.1%
Depreciation and amortization	2,889	2,834	-1.9%
	<u>78,237</u>	<u>81,442</u>	<u>4.1%</u>
Operating income	4,317	5,190	20.2%
Interest expense, net	9,023	9,092	0.8%
Loss on investment in joint venture	343	-	-100.0%
Loss before income taxes	<u>(5,049)</u>	<u>(3,902)</u>	<u>-22.7%</u>
Provision for income taxes	152	225	48.0%
Net loss	<u>\$ (5,201)</u>	<u>\$ (4,127)</u>	<u>-20.6%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income - per above	\$ 4,317	\$ 5,190	
Adjusted for:			
Depreciation and amortization	2,889	2,834	
Stock compensation expense	166	49	
Hospital closure/relocation/start-up losses	911	2,592	
Sarbanes Oxley implementation	308	53	
Cost saving initiatives	1,105	-	
Other credit agreement add-back items	857	76	
Credit Agreement EBITDA	<u>\$ 10,553</u>	<u>\$ 10,794</u>	

Schedule 2
Condensed Consolidated Statements of Operations
For the Six Months Ended June 30, 2007 and 2008
(In thousands)
(Unaudited)

	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Net patient service revenue	\$ 164,923	\$ 175,393	6.3%
Expenses:			
Salaries, wages and benefits	77,215	82,891	7.4%
Supplies	16,760	17,856	6.5%
Rent	9,979	12,728	27.5%
Other operating expense	42,105	41,576	-1.3%
Provision for doubtful accounts	2,884	2,448	-15.1%
Depreciation and amortization	5,733	5,587	-2.5%
	<u>154,676</u>	<u>163,086</u>	<u>5.4%</u>
Operating income	10,247	12,307	20.1%
Interest expense, net	17,498	18,926	8.2%
Loss on investment in joint venture	343	-	-100.0%
Loss before income taxes	<u>(7,594)</u>	<u>(6,619)</u>	<u>-12.8%</u>
Provision (benefit) for income taxes	(699)	425	-160.8%
Net loss	<u>\$ (6,895)</u>	<u>\$ (7,044)</u>	<u>2.2%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income - per above	\$ 10,247	\$ 12,307	
Adjusted for:			
Depreciation and amortization	5,733	5,587	
Stock compensation expense	333	151	
Hospital closure/relocation/start-up losses	1,489	4,716	
Sarbanes Oxley implementation	857	459	
Cost saving initiatives	2,726	214	
Other credit agreement add-back items	<u>1,394</u>	<u>671</u>	
Credit Agreement EBITDA	<u>\$ 22,779</u>	<u>\$ 24,105</u>	

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

Assets	December 31, 2007	June 30, 2008
Current assets:		
Cash and cash equivalents	\$ 17,816	\$ 20,248
Accounts receivable, net	66,911	60,860
Estimated third-party payer settlements	-	4,604
Income taxes receivable	2,025	2,314
Other current assets	13,597	11,263
Total current assets	100,349	99,289
Property and equipment, net	83,317	87,542
Goodwill and other identifiable intangibles, net	282,415	281,845
Other assets	15,675	14,154
	<u>\$ 481,756</u>	<u>\$ 482,830</u>
Liabilities and Stockholder's Equity (Deficit)		
Current liabilities:		
Payables and accruals	\$ 42,285	\$ 42,084
Estimated third-party payer settlements	5,744	-
Current installments of long-term debt	2,550	2,550
Current installments of obligations under capital leases	1,604	1,277
Current installment of lease financing obligation	-	403
Total current liabilities	52,183	46,314
Long-term debt, excluding current installments	393,713	402,438
Obligations under capital leases, excluding current installments	741	2,129
Lease financing obligation	16,590	19,226
Accrued insurance	4,714	5,272
Other noncurrent liabilities	13,582	14,115
Total liabilities	481,523	489,494
Stockholder's equity (deficit)	233	(6,664)
	<u>\$ 481,756</u>	<u>\$ 482,830</u>

Schedule 4
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2007 and 2008
(In thousands)
(Unaudited)

	<u>2007</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	\$ (6,895)	\$ (7,044)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,495	6,634
Provision for doubtful accounts	2,884	2,448
Equity compensation amortization	329	147
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,039)	3,603
Other current assets	1,682	(857)
Other assets	138	472
Estimated third-party payer settlements	(10,674)	(10,348)
Accounts payable and accrued expenses	(4,299)	1,902
Other liabilities	1,215	1,091
Net cash used in operating activities	<u>(16,164)</u>	<u>(1,952)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(24,781)	(10,558)
Sale leaseback proceeds	29,292	3,714
Net cash provided by (used in) investing activities	<u>4,511</u>	<u>(6,844)</u>
Cash flows from financing activities:		
Deferred financing costs	(1,089)	-
Lease financing obligation proceeds	5,776	2,366
Payments on lease financing obligation	-	(100)
Net change in borrowings under the line of credit	-	10,000
Payments of notes payable and long-term debt	(1,275)	(1,275)
Proceeds from capital lease financing	-	1,802
Payments on obligations under capital leases	(2,229)	(1,565)
Net cash provided by financing activities	<u>1,183</u>	<u>11,228</u>
Net increase (decrease) in cash and cash equivalents	(10,470)	2,432
Cash and cash equivalents, beginning of period	33,250	17,816
Cash and cash equivalents, end of period	<u>\$ 22,780</u>	<u>\$ 20,248</u>

Schedule 5
Selected Operating Statistics

	Three months ended June 30, 2007	Three months ended June 30, 2008
Number of hospitals within hospitals (end of period)	10	9
Number of freestanding hospitals (end of period)	9	11
Number of total hospitals (end of period)	19	20
Licensed beds (end of period)	951	1,079
Average licensed beds (1)	931	1,079
Admissions	1,906	2,075
Patient days	58,187	59,879
Occupancy rate	69.4%	61.0%
Percent net patient service revenue from Medicare	64.3%	60.0%
Percent net patient service revenue from commercial payors and Medicaid (2)	35.7%	40.0%
Net patient service revenue per patient day	\$1,420	\$1,447

	Six months ended June 30, 2007	Six months ended June 30, 2008
Number of hospitals within hospitals (end of period)	10	9
Number of freestanding hospitals (end of period)	9	11
Number of total hospitals (end of period)	19	20
Licensed beds (end of period)	951	1,079
Average licensed beds (1)	927	1,044
Admissions	3,896	4,341
Patient days	116,426	121,598
Occupancy rate	69.7%	64.0%
Percent net patient service revenue from Medicare	66.4%	61.2%
Percent net patient service revenue from commercial payors and Medicaid (2)	33.6%	38.8%
Net patient service revenue per patient day	\$1,417	\$1,442

(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.