

## **LifeCare Holdings, Inc.**

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

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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, 2008.

#### ***Three Months Ended September 30, 2008***

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

Our net patient service revenue of \$82.4 million for the three months ended September 30, 2008, increased by \$4.8 million, or 6.2%, as compared to the same period in 2007. Patient days and admissions during the current year period were consistent with the prior year period. The increase in net patient service revenue was comprised of a \$5.2 million benefit as the result of increased revenue per patient day offset by an unfavorable variance of \$0.4 million from a decrease in patient days.

During the three months ended September 30, 2008 our net patient service revenue per patient day was \$1,489, as compared to \$1,394 for the 2007 period. 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, an increase in the percentage of our revenues generated from commercial payors, and the marginal increases contained in the annual regulatory updates implemented by Medicare in the 2008 Final Rule.

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

Total expenses decreased by \$5.1 million to \$87.5 million for the three months ended September 30, 2008 as compared to \$92.6 million for the comparable period in 2007. The 2007 period included \$2.5 million for compensation and benefits accrued in connection with the departure of the CEO during 2007 and \$3.8 million related to goodwill impairment charges.

Excluding these items, total expenses increased by \$1.2 million during the 2008 period as compared to the 2007 period. Other operating expenses decreased by \$1.3 million in the 2008 period due mainly to a decrease in insurance expense as the result of favorable premium trends and experience trending. The provision for doubtful accounts decreased by \$1.3 million as the result of increased collections on aged accounts previously reserved for and favorable accounts receivable aging trends. Offsetting these decreases were increases in salaries, wages and benefits of \$2.6 million and an increase in rent expense of \$0.6 million. The increase in salaries, wages and benefits was due mainly to inflationary increases and the expansion of bed capacity as discussed previously. The increase in rent expense was also due to the expansion of bed capacity.

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

For the quarter ended September 30, 2008, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$9.0 million. 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 \$11.6 million on a pro forma basis. See additional discussion regarding this cure right in the Liquidity and Capital Resources section contained herein. 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 revenue per patient day.

### ***Nine Months Ended September 30, 2008***

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

Our net patient service revenue increased by \$15.3 million, or 6.3%, for the nine months ended September 30, 2008, to \$257.8 million from \$242.5 million for the comparable period in 2007. Patient days and admissions increased 2.8% and 7.6%, respectively, for the nine months ended September 30, 2008 compared to the same period in 2007.

This increase in net patient service revenue was comprised of a \$6.9 million favorable benefit from an increase in patient days and a favorable \$8.4 million variance as the result of increased revenue per patient day. This increase in patient days and admissions was partially attributable to the expansion of our operations.

Our net patient service revenue per patient day during the nine months ended September 30, 2008 and 2007, was \$1,457 and \$1,409, respectively. 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, an increase in the percentage of our revenues generated from commercial payors, and the marginal increases contained in the annual regulatory updates implemented by Medicare in the 2008 Final Rule.

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

Total expenses increased by \$4.7 million to \$269.5 million for the nine months ended September 30, 2008 as compared to \$264.8 million for the comparable period in 2007. 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.

Excluding the impairment charge and the compensation and benefits accrual for 2007, expenses increased by \$11.0 million from the same period in the prior year. Rent expenses increased by \$3.4 million during the 2008 period in connection with an increase in bed capacity. Net interest expense increased by \$1.7 million during the 2008 period due mainly to increased interest margins on our senior secured credit facility and borrowings under our revolving credit facility as discussed further in the Liquidity and Capital Resources section contained herein. The remaining \$5.9 million increase in expenses was primarily attributable to an increase in salaries, wages and benefits due to inflationary increases and the increases in bed capacity.

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

For the nine months ended September 30, 2008, Credit Agreement EBITDA, was \$33.6 million. 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 \$34.4 million on a pro forma basis. See additional discussion regarding this cure right in the Liquidity and Capital Resources section contained herein. The increase in Credit Agreement EBITDA was primarily due to the increase in revenues associated with the increase in patient days and revenue per patient day, offset by the increase in expenses discussed previously.

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

At September 30, 2008, our outstanding indebtedness consisted of \$147.0 million aggregate principal amount of senior subordinated notes due 2013, a \$247.4 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 4 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 was 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 the current or subsequent fiscal periods for financial covenant test purposes.

We believe that our cash on hand, expected cash flows from operations, and potential availability of borrowings under the revolving portion of our senior secured credit facility will be sufficient to finance

our operations, and meet our scheduled debt service requirements for at least the next twelve months. Availability of borrowings under our Revolving Credit Facility are generally dependent upon our ability to meet the maximum leverage ratio test included in the senior secured credit facility.

### **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 September 30, 2008, Credit Agreement EBITDA was \$46.8 million.

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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](http://www.lifecare-hospitals.com).

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

	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Net patient service revenue	\$ 77,553	\$ 82,394	6.2%
Expenses:			
Salaries, wages and benefits	40,389	40,520	0.3%
Supplies	8,191	8,353	2.0%
Rent	5,712	6,331	10.8%
Other operating expense	21,180	19,902	-6.0%
Provision for doubtful accounts	1,404	151	-89.2%
Depreciation and amortization	2,952	3,018	2.2%
Goodwill impairment charges	3,834	-	NM
	<u>83,662</u>	<u>78,275</u>	<u>-6.4%</u>
Operating income (loss)	(6,109)	4,119	-167.4%
Interest expense, net	8,967	9,209	2.7%
Equity in loss of joint venture	106	-	NM
Loss before income taxes	(15,182)	(5,090)	-66.5%
Provision for income taxes	(1,953)	835	-142.8%
Net loss	<u>\$ (13,229)</u>	<u>\$ (5,925)</u>	<u>-55.2%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income (loss) - per above	\$ (6,109)	\$ 4,119	
Adjusted for:			
Depreciation and amortization	2,952	3,018	
Goodwill impairment charges	3,834	-	
Stock compensation expense	194	62	
Hospital closure/relocation/start-up losses	1,697	1,202	
Severance	2,468	250	
Sarbanes Oxley implementation	249	-	
Cost saving initiatives	602	130	
Other credit agreement add-back items	(280)	213	
Credit Agreement EBITDA	5,607	8,994	
Exercise of cure right for quarter ended September 30, 2007	5,999	-	
Pro Forma Credit Agreement EBITDA	<u>\$ 11,606</u>	<u>\$ 8,994</u>	

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

	<u>2007</u>	<u>2008</u>	<u>% Change</u>
Net patient service revenue	\$ 242,475	\$ 257,786	6.3%
Expenses:			
Salaries, wages and benefits	117,604	123,411	4.9%
Supplies	24,951	26,209	5.0%
Rent	15,691	19,060	21.5%
Other operating expense	63,286	61,475	-2.9%
Provision for doubtful accounts	4,287	2,600	-39.4%
Depreciation and amortization	8,685	8,605	-0.9%
Goodwill impairment charges	3,834	-	NM
	<u>238,338</u>	<u>241,360</u>	<u>1.3%</u>
Operating (loss) income	4,137	16,426	297.1%
Interest expense, net	26,466	28,135	6.3%
Equity in loss of joint venture	448	-	NM
Loss before income taxes	(22,777)	(11,709)	-48.6%
Provision (benefit) for income taxes	(2,652)	1,259	-147.5%
Net loss	<u>\$ (20,125)</u>	<u>\$ (12,968)</u>	<u>-35.6%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income (loss) - per above	\$ 4,137	\$ 16,426	
Adjusted for:			
Depreciation and amortization	8,685	8,605	
Goodwill impairment charge	3,834	-	
Stock compensation expense	526	213	
Hospital closure/relocation/start-up losses	3,260	5,890	
Severance	2,918	701	
Sarbanes Oxley implementation	1,111	459	
Cost saving initiatives	3,328	562	
Other credit agreement add-back items	587	699	
Credit Agreement EBITDA	28,386	33,555	
Exercise of cure right for quarter ended September 30, 2007	5,999	-	
Pro Forma Credit Agreement EBITDA	<u>\$ 34,385</u>	<u>\$ 33,555</u>	

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

<b>Assets</b>	<b>December 31, 2007</b>	<b>September 30, 2008</b>
Current assets:		
Cash and cash equivalents	\$ 17,816	\$ 22,253
Accounts receivable, net	66,911	66,992
Income taxes receivable	2,025	1,511
Other current assets	13,597	8,959
Total current assets	100,349	99,715
Property and equipment, net	83,317	86,055
Goodwill and other identifiable intangibles, net	282,415	281,560
Other assets	15,675	13,420
	<u>\$ 481,756</u>	<u>\$ 480,750</u>
<b>Liabilities and Stockholder's Equity (Deficit)</b>		
Current liabilities:		
Payables and accruals	\$ 42,285	\$ 44,644
Estimated third-party payer settlements	5,744	2,589
Current installments of long-term debt	2,550	2,550
Current installments of obligations under capital leases	1,604	1,227
Current installment of lease financing obligation	-	410
Total current liabilities	52,183	51,420
Long-term debt, excluding current installments	393,713	401,800
Obligations under capital leases, excluding current installments	741	2,173
Lease financing obligation	16,590	18,527
Accrued insurance	4,714	5,030
Other noncurrent liabilities	13,582	14,332
Total liabilities	<u>481,523</u>	<u>493,282</u>
Stockholder's equity (deficit)	233	(12,532)
	<u>\$ 481,756</u>	<u>\$ 480,750</u>

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

	<u>2007</u>	<u>2008</u>
Cash flows from operating activities:		
Net loss	\$ (20,125)	\$ (12,968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,865	10,202
Provision for doubtful accounts	4,287	2,600
Impairment charges	3,834	-
Equity in loss of joint venture	448	-
Deferred income taxes	2,087	-
Equity compensation amortization	519	203
Changes in operating assets and liabilities:		
Patient accounts receivable	(7,409)	(2,681)
Other current assets	(3,123)	301
Other assets	(131)	656
Estimated third-party payer settlements	(7,884)	(3,155)
Accounts payable and accrued expenses	3,322	4,605
Other liabilities	1,509	1,068
Net cash provided by (used in) operating activities	<u>(12,801)</u>	<u>831</u>
Cash flows from investing activities:		
Purchases of property and equipment	(37,252)	(11,722)
Sale leaseback proceeds	26,669	3,714
Net cash used in investing activities	<u>(10,583)</u>	<u>(8,008)</u>
Cash flows from financing activities:		
Deferred financing costs	(1,089)	-
Lease financing obligation proceeds	10,466	3,829
Payments on lease financing obligation	-	(200)
Net change in borrowings under the line of credit	-	10,000
Payments of notes payable and long-term debt	(2,550)	(1,913)
Proceeds from capital lease financing	-	1,802
Payments on obligations under capital leases	(3,122)	(1,904)
Net cash provided by financing activities	<u>3,705</u>	<u>11,614</u>
Net increase (decrease) in cash and cash equivalents	(19,679)	4,437
Cash and cash equivalents, beginning of period	33,250	17,816
Cash and cash equivalents, end of period	<u>\$ 13,571</u>	<u>\$ 22,253</u>

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

	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2008</b>
Number of hospitals within hospitals (end of period)	9	9
Number of freestanding hospitals (end of period)	10	11
Number of total hospitals (end of period)	19	20
Licensed beds (end of period)	1,008	1,079
Average licensed beds (1)	976	1,079
Admissions	1,972	1,974
Patient days	55,616	55,329
Occupancy rate	61.9%	55.7%
Percent net patient service revenue from Medicare	60.8%	60.4%
Percent net patient service revenue from commercial payors and Medicaid (2)	39.2%	39.6%
Net patient service revenue per patient day	\$1,394	\$1,489

	<b>Nine months ended September 30, 2007</b>	<b>Nine months ended September 30, 2008</b>
Number of hospitals within hospitals (end of period)	9	9
Number of freestanding hospitals (end of period)	10	11
Number of total hospitals (end of period)	19	20
Licensed beds (end of period)	1,008	1,079
Average licensed beds (1)	944	1,056
Admissions	5,868	6,315
Patient days	172,042	176,927
Occupancy rate	66.8%	61.1%
Percent net patient service revenue from Medicare	64.7%	60.9%
Percent net patient service revenue from commercial payors and Medicaid (2)	35.3%	39.1%
Net patient service revenue per patient day	\$1,409	\$1,457

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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.