

## **LifeCare Holdings, Inc.**

**News Release  
For Immediate Release  
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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 quarter ended September 30, 2009.

#### ***Three Months Ended September 30, 2009***

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

Our net patient service revenue increased by \$1.9 million, or 2.3%, for the three months ended September 30, 2009, to \$84.3 million from \$82.4 million for the comparable period in 2008. Patient days and admissions decreased by 4.4% and 7.2%, respectively, during the three months ended September 30, 2009 as compared to the same period in 2008.

The \$1.9 million increase in net patient service revenue was comprised of a \$0.2 million increase in adjustments related to changes in estimates and settlements on cost reports previously filed with the Medicare program, offset by an unfavorable variance of \$3.7 million attributable to the decrease in patient days, with a remaining increase of \$5.4 million attributable to an increase in revenue per patient day.

During the three months ended September 30, 2009 our net patient service revenue per patient day was \$1,594, as compared to \$1,489 for the 2008 period, an increase of 7.1%. The increase in net patient service revenue on a per patient day basis during the 2009 period was primarily the result of annual inflationary increases in our standard charge rates and certain of our contracts with commercial payors, a higher acuity level of the patients treated in the 2009 period, and the marginal increases contained in recent annual regulatory updates implemented by CMS during 2008.

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

Total expenses decreased by \$1.9 million to \$85.6 million for the three months ended September 30, 2009 as compared to \$87.5 million for the comparable period in 2008. The decrease of \$1.9 million was primarily the result of a decrease of \$0.5 million in salaries, wages and benefits, a decrease of \$1.6 million in net interest expense and the recognition of a gain of \$0.6 million on the early extinguishment of debt, offset by an increase in the provision for doubtful accounts of \$1.0 million.

The decrease in salaries, wages and benefits was primarily attributable to the decrease in patient volumes as previously discussed offset by increases attributable to the treatment of higher acuity patients during the 2009 period and annual inflationary increases. The decrease in interest expense was due to lower interest rates on our term debt offset by increased borrowings against our revolving credit facility. The increase in the provision for doubtful accounts was due to a benefit recognized during the 2008 period from collections during the period in excess of amounts previously reserved on certain accounts.

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

For the quarter ended September 30, 2009, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$9.2 million, which is in-line with 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. As of September 30, 2009, we believe we were in compliance with all covenants contained in our senior secured credit facility, as amended.

### ***Nine Months Ended September 30, 2009***

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

Our net patient service revenue increased by \$13.1 million, or 5.1%, for the nine months ended September 30, 2009, to \$270.9 million from \$257.8 million for the comparable period in 2008. Patient days and admissions decreased by 4.1% and 4.4%, respectively, for the nine months ended September 30, 2009 as compared to the same period in 2008.

The \$13.1 million increase in net patient service revenue was comprised of a \$2.9 million increase in adjustments related to changes in estimates and settlements on cost reports previously filed with the Medicare program, offset by an unfavorable variance of \$10.7 million attributable to the decrease in patient days, with a remaining increase of \$20.9 million attributable to an increase in revenue per patient day. The net increase of \$2.9 million for adjustments to previously filed cost reports was comprised of a favorable adjustment of \$1.3 million recorded in the nine months ended September 30, 2009 offset by an unfavorable adjustment of \$1.6 million recorded in the nine months ended September 30, 2008.

During the nine months ended September 30, 2009 and 2008, our net patient service revenue per patient day was \$1,597 and \$1,457, 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, 2009 and 2008 was \$1,589 and \$1,466, respectively, or an increase of 8.4%. The increase in net patient service revenue on a per patient day basis during the 2009 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, a higher acuity level of the patients treated in the 2009 period, and the marginal increases contained in recent annual regulatory updates implemented by CMS during 2008.

## ***Expenses***

Total expenses increased by \$2.2 million to \$271.7 million for the nine months ended September 30, 2009 as compared to \$269.5 million for the comparable period in 2008. The increase of \$2.2 million in total expenses was primarily the result of an increase in salaries, wages and benefits of \$2.2 million, an increase in other operating expenses of \$4.4 million and an increase of \$1.6 million in the provision for doubtful accounts, offset by a decrease in net interest expense of \$4.2 million.

The increase in salaries, wages and benefits was primarily attributable to the treatment of higher acuity patients during the 2009 period and annual inflationary increases. The increase in other operating expenses was primarily attributable to an increase in clinical purchased services as a result of the treatment of higher acuity patients, and an increase in insurance expenses during the three months ended June 30, 2009, as a result of the agreement with the insurance carriers in the amount of \$1.0 million related to the Hurricane Katrina matters. The increase in the provision for doubtful accounts was due to a benefit recognized during the 2008 period from collections during the period in excess of amounts previously reserved on certain accounts. The decrease in interest expense was due to lower interest rates on our term debt offset by increased borrowings against our revolving credit facility.

## ***Credit Agreement EBITDA***

For the nine months ended September 30, 2009, Credit Agreement EBITDA, was \$38.1 million, an increase of \$4.0 million, or 11.9% from the prior year period. This increase in Credit Agreement EBITDA is principally the result of the increase in net patient service revenue per patient day as previously discussed.

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

At September 30, 2009, our outstanding indebtedness consisted of \$129.3 million aggregate principal amount of senior subordinated notes due 2013, a \$244.8 million term loan facility that matures in 2012, and \$35.0 million outstanding on our revolving credit facility which matures in 2011. At September 30, 2009, the interest rate applicable to the \$244.8 million under our term loan facility was 4.74%, and the weighted average rate on the \$35.0 million outstanding balance of the revolving credit facility was 4.44%.

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, including the first quarter of 2010. In addition, the senior secured credit facility includes various negative covenants, including limitations on indebtedness, liens, investments, permitted businesses, restricted payments, transactions and other matters, as well as certain customary representations and warranties, affirmative covenants and events of default including payment defaults.

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, and potential availability of borrowings under the revolving portion of our senior secured credit facilities 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, 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 31, 2009, 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 of 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, 2009, Credit Agreement EBITDA was \$52.0 million.

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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, 2008 and 2009**  
**(In thousands)**  
**(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>% Change</u>
Net patient service revenue	\$ 82,394	\$ 84,261	2.3%
Expenses:			
Salaries, wages and benefits	40,520	39,978	-1.3%
Supplies	8,353	8,269	-1.0%
Rent	6,331	6,021	-4.9%
Other operating expense	19,902	20,447	2.7%
Provision for doubtful accounts	151	1,103	630.5%
Gain on early extinguishment of debt	-	(558)	NM
Depreciation and amortization	3,018	2,724	-9.7%
Interest expense, net	9,209	7,613	-17.3%
	<u>87,484</u>	<u>85,597</u>	<u>-2.2%</u>
Operating loss	(5,090)	(1,336)	-73.8%
Equity in income of joint venture	-	25	NM
Loss before income taxes	(5,090)	(1,311)	-74.2%
Provision for income taxes	835	192	-77.0%
Net loss	<u>\$ (5,925)</u>	<u>\$ (1,503)</u>	<u>-74.6%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating loss - per above	\$ (5,090)	\$ (1,336)	
Adjusted for:			
Depreciation and amortization	3,018	2,724	
Interest expense, net	9,209	7,613	
Gain on early extinguishment of debt	-	(558)	
Loss attributable to unrestricted subsidiary	1,211	201	
Hospital closure/relocation/start-up losses	(9)	(5)	
Severance	250	-	
New Orleans operations	-	38	
Stock compensation expense	62	79	
Cost saving initiatives	271	112	
Other credit agreement add-back items	298	304	
Credit Agreement EBITDA	<u>\$ 9,220</u>	<u>\$ 9,172</u>	

**Schedule 2**  
**Condensed Consolidated Statements of Operations**  
**For the Nine Months Ended September 30, 2008 and 2009**  
**(In thousands)**  
**(Unaudited)**

	<u>2008</u>	<u>2009</u>	<u>% Change</u>
Net patient service revenue	\$ 257,786	\$ 270,930	5.1%
Expenses:			
Salaries, wages and benefits	123,411	125,573	1.8%
Supplies	26,209	25,731	-1.8%
Rent	19,060	18,902	-0.8%
Other operating expense	61,475	65,835	7.1%
Provision for doubtful accounts	2,600	4,210	61.9%
Gain on early extinguishment of debt	-	(642)	NM
Depreciation and amortization	8,605	8,104	-5.8%
Interest expense, net	28,135	23,964	-14.8%
	<u>269,495</u>	<u>271,677</u>	<u>0.8%</u>
Operating loss	(11,709)	(747)	-93.6%
Equity in loss of joint venture	-	(512)	NM
Loss before income taxes	(11,709)	(1,259)	-89.2%
Provision for income taxes	1,259	592	-53.0%
Net loss	<u>\$ (12,968)</u>	<u>\$ (1,851)</u>	<u>-85.7%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating loss - per above	\$ (11,709)	\$ (747)	
Adjusted for:			
Depreciation and amortization	8,605	8,104	
Interest expense, net	28,135	23,964	
Gain on early extinguishment of debt	-	(642)	
Loss attributable to unrestricted subsidiary	3,498	2,122	
Hospital closure/relocation/start-up losses	2,420	1,213	
New Orleans operations	(28)	1,159	
Stock compensation expense	213	244	
Severance	701	-	
Cost saving initiatives	1,084	731	
Sarbanes Oxley implementation	459	-	
Other credit agreement add-back items	702	1,972	
Credit Agreement EBITDA	<u>\$ 34,080</u>	<u>\$ 38,120</u>	

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

<b>Assets</b>	<b>December 31, 2008</b>	<b>September 30, 2009</b>
Current assets:		
Cash and cash equivalents	\$ 25,262	\$ 54,285
Accounts receivable, net	66,803	55,705
Income taxes receivable	1,279	1,270
Other current assets	7,735	7,724
Total current assets	101,079	118,984
Property and equipment, net	86,479	82,421
Goodwill and other identifiable intangibles, net	262,675	261,820
Other assets	12,597	11,620
	<u>\$ 462,830</u>	<u>\$ 474,845</u>
<b>Liabilities and Stockholder's Deficit</b>		
Current liabilities:		
Payables and accruals	\$ 52,868	\$ 47,112
Estimated third-party payor settlements	6,231	6,473
Current installments of long-term debt	2,550	2,550
Current installments of obligations under capital leases	1,252	987
Current installment of lease financing obligation	292	435
Total current liabilities	63,193	57,557
Long-term debt, excluding current installments	384,694	406,549
Obligations under capital leases, excluding current installments	1,836	1,174
Lease financing obligation	20,645	20,152
Accrued insurance	3,592	4,184
Other noncurrent liabilities	9,419	7,394
Total liabilities	483,379	497,010
Stockholder's deficit	(20,549)	(22,165)
	<u>\$ 462,830</u>	<u>\$ 474,845</u>

**Schedule 4**  
**Condensed Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2008 and 2009**  
**(In thousands)**  
**(Unaudited)**

	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$ (12,968)	\$ (1,851)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,202	9,759
Provision for doubtful accounts	2,600	4,210
Equity compensation amortization	203	235
Gain on early extinguishment of debt	-	(642)
Loss on the disposal of assets	-	2
Equity in loss of joint venture	-	512
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,681)	6,887
Other current assets	301	(67)
Other assets	656	467
Estimated third-party payor settlements	(3,155)	242
Accounts payable and accrued expenses	4,605	(5,695)
Other liabilities	1,068	(1,433)
Net cash provided by operating activities	<u>831</u>	<u>12,626</u>
Cash flows from investing activities:		
Purchases of property and equipment	(11,722)	(3,440)
Investment in joint venture	-	(6)
Note receivable with joint venture	-	(1,400)
Sale leaseback proceeds	3,714	-
Net cash used in investing activities	<u>(8,008)</u>	<u>(4,846)</u>
Cash flows from financing activities:		
Net change in borrowings under the line of credit	10,000	25,000
Payments of notes payable and long-term debt	(1,913)	(2,479)
Proceeds from lease financing obligation	3,829	-
Payments on lease financing obligation	(200)	(351)
Proceeds from capital lease financing	1,802	-
Payments on obligations under capital leases	(1,904)	(927)
Net cash provided by financing activities	<u>11,614</u>	<u>21,243</u>
Net increase in cash and cash equivalents	4,437	29,023
Cash and cash equivalents, beginning of period	17,816	25,262
Cash and cash equivalents, end of period	<u>\$ 22,253</u>	<u>\$ 54,285</u>

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

	<b>Three months ended September 30, 2008</b>	<b>Three months ended September 30, 2009</b>
Number of hospitals within hospitals (end of period)	9	8
Number of freestanding hospitals (end of period)	11	11
Number of total hospitals (end of period)	20	19
Licensed beds (end of period)	1,079	1,059
Average licensed beds (1)	1,079	1,072
Admissions	1,974	1,832
Patient days	55,329	52,868
Occupancy rate	55.7%	53.6%
Percent net patient service revenue from Medicare	60.4%	55.2%
Percent net patient service revenue from commercial payors and Medicaid (2)	39.6%	44.8%
Net patient service revenue per patient day	\$1,489	\$1,594

	<b>Nine months ended September 30, 2008</b>	<b>Nine months ended September 30, 2009</b>
Number of hospitals within hospitals (end of period)	9	8
Number of freestanding hospitals (end of period)	11	11
Number of total hospitals (end of period)	20	19
Licensed beds (end of period)	1,079	1,059
Average licensed beds (1)	1,056	1,077
Admissions	6,315	6,039
Patient days	176,927	169,640
Occupancy rate	61.1%	57.7%
Percent net patient service revenue from Medicare	60.9%	59.1%
Percent net patient service revenue from commercial payors and Medicaid (2)	39.1%	40.9%
Net patient service revenue per patient day	\$1,457	\$1,597

(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.