

LifeCare Holdings, Inc.

**News Release
For Immediate Release
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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, 2009.

Net Revenues

Our net patient service revenue increased by \$6.2 million, or 7.1%, for the three months ended March 31, 2009, to \$95.0 million from \$88.8 million for the comparable period in 2008. Patient days in the 2009 period were 2,574, or 4.2%, less than the same period in 2008, while admissions were 2,165, or 4.5%, less than the same period in 2008.

The increase in our net patient service revenue was comprised of a favorable benefit of \$9.9 million as the result of higher rates on a per patient day basis offset by an unfavorable variance of \$3.7 million from the decrease in patient days. During the three months ended March 31, 2009, our net patient service revenue per patient day was \$1,607, which represented an increase of 11.8% compared to the same period in 2008. 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 the Centers for Medicare & Medicaid Services during 2008.

Expenses

Total expenses increased by \$0.9 million to \$92.4 million for the three months ended March 31, 2009 as compared to \$91.5 million for the same period in 2008. This increase of \$0.9 million was primarily due to a \$2.1 million increase in salaries, wages and benefits, partially offset by a \$1.5 million decrease in net interest expense. The increase in salaries, wages and benefits was primarily attributable to increases in operating capacity, the higher acuity of the patients during the 2009 period, and annual inflationary increases. The decrease in net interest expense was the result of lower interest rates on outstanding borrowings during the 2009 period and the decrease of \$16.5 million in outstanding principal of our senior subordinated notes as a result of the repurchase of these notes during the quarter ended December 31, 2008.

Credit Agreement EBITDA

For the quarter ended March 31, 2009, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$16.5 million, an increase of \$2.8 million, or 20.5% 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. This increase in Credit Agreement EBITDA is principally the result of the increase in net patient service revenue per patient day as previously discussed. As of March 31, 2009, we believe we were in compliance with all covenants contained in our senior secured credit facility, as amended.

Liquidity and Capital Resources

At March 31, 2009, our outstanding indebtedness consisted of \$130.4 million aggregate principal amount of senior subordinated notes due 2013, a \$246.7 million term loan facility that matures in 2012, and \$35.0 million outstanding on our revolving credit facility which matures in 2011. At March 31, 2009, the interest rate applicable to the \$246.7 million under our term loan facility was 5.43%, and the weighted average rate on the \$35.0 million outstanding balance of the revolving credit facility was 5.95%.

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.

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 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, 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, 2009, Credit Agreement EBITDA was \$50.4 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 March 31, 2008 and 2009
(In thousands)
(Unaudited)

	<u>2008</u>	<u>2009</u>	<u>% Change</u>
Net patient service revenue	\$ 88,761	\$ 95,024	7.1%
Expenses:			
Salaries, wages and benefits	41,088	43,182	5.1%
Supplies	9,051	8,754	-3.3%
Rent	6,170	6,503	5.4%
Other operating expense	20,735	21,764	5.0%
Provision for doubtful accounts	1,847	1,358	-26.5%
Gain on early extinguishment of debt	-	(84)	NM
Depreciation and amortization	2,753	2,635	-4.3%
Interest expense, net	9,834	8,327	-15.3%
	<u>91,478</u>	<u>92,439</u>	<u>1.1%</u>
Operating income	(2,717)	2,585	195.1%
Equity in loss of joint venture	-	(537)	NM
Income (loss) before income taxes	(2,717)	2,048	175.4%
Provision for income taxes	200	225	12.5%
Net income (loss)	<u>\$ (2,917)</u>	<u>\$ 1,823</u>	<u>162.5%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating Income - per above	\$ (2,717)	\$ 2,585	195.1%
Adjusted for:			
Depreciation and amortization	2,753	2,635	-4.3%
Interest expense, net	9,834	8,327	-15.3%
Gain on early extinguishment of debt	-	(84)	NM
Loss attributable to unrestricted subsidiary	667	1,032	54.7%
Hospital closure/relocation/start-up losses	1,457	1,083	-25.7%
Stock compensation expense	102	85	-16.7%
Severance	451	-	NM
Cost saving initiatives	461	100	-78.3%
Sarbanes Oxley implementation	406	-	NM
Other credit agreement add-back items	242	697	188.0%
Credit Agreement EBITDA	<u>\$ 13,656</u>	<u>\$ 16,460</u>	<u>20.5%</u>

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

Assets	December 31, 2008	March 31, 2009
Current assets:		
Cash and cash equivalents	\$ 25,262	\$ 43,324
Accounts receivable, net	66,803	73,336
Income taxes receivable	1,279	1,088
Other current assets	<u>7,735</u>	<u>7,938</u>
Total current assets	101,079	125,686
Property and equipment, net	86,479	85,361
Goodwill and other identifiable intangibles, net	262,675	262,390
Other assets	<u>12,597</u>	<u>11,361</u>
	<u>\$ 462,830</u>	<u>\$ 484,798</u>
Liabilities and Stockholder's Deficit		
Current liabilities:		
Payables and accruals	\$ 52,868	\$ 53,977
Current installments of long-term debt	2,550	3,188
Current installments of obligations under capital leases	1,252	1,216
Current installments of lease financing obligation	292	418
Estimated third party payor settlements	<u>6,231</u>	<u>883</u>
Total current liabilities	63,193	59,682
Long-term debt, excluding current installments	384,694	408,906
Obligations under capital leases, excluding current installments	1,836	1,566
Lease financing obligation, excluding current installments	20,645	20,374
Accrued insurance	3,592	3,605
Other noncurrent liabilities	<u>9,419</u>	<u>9,308</u>
Total liabilities	<u>483,379</u>	<u>503,441</u>
Stockholder's deficit	<u>(20,549)</u>	<u>(18,643)</u>
	<u>\$ 462,830</u>	<u>\$ 484,798</u>

Schedule 3
Condensed Consolidated Statements of Cash Flows
For the three months ended March 31, 2008 and 2009
(In thousands)
(Unaudited)

	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Net income (loss)	\$ (2,917)	\$ 1,823
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,276	3,177
Provision for doubtful accounts	1,847	1,358
Equity compensation amortization	99	83
Gain on early extinguishment of debt	—	(84)
Equity in loss of joint venture	—	537
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,516)	(7,891)
Current income taxes	200	190
Prepaid expenses and other current assets	(788)	(203)
Other assets	61	155
Estimated third party payer settlements	(2,119)	(5,347)
Accounts payable and accrued expenses	3,838	1,109
Other liabilities	352	(98)
Net cash used in operating activities	<u>(7,667)</u>	<u>(5,191)</u>
Cash from investing activities:		
Purchases of property and equipment	(8,542)	(1,231)
Sales-leaseback proceeds	2,893	—
Net cash used in investing activities	<u>(5,649)</u>	<u>(1,231)</u>
Cash flows from financing activities:		
Borrowings under the line of credit	—	25,000
Payments of notes payable and long-term debt	(638)	(63)
Proceeds from capital lease financing	1,802	—
Payments on obligations under capital leases	(797)	(307)
Proceeds from lease financing obligation	1,800	—
Payments on lease financing obligation	—	(146)
Net cash provided by financing activities	<u>2,167</u>	<u>24,484</u>
Net increase (decrease) in cash and cash equivalents	(11,149)	18,062
Cash and cash equivalents, beginning of period	17,816	25,262
Cash and cash equivalents, end of period	<u>\$ 6,667</u>	<u>\$ 43,324</u>
Supplemental disclosure of cash flow information:		
Cash:		
Interest paid	\$ 13,380	\$ 11,786
Net income taxes paid	—	34
Noncash:		
Equipment purchased through capital lease financing	824	—

Schedule 4
Selected Operating Statistics

	Three months ended March 31, 2008	Three months ended March 31, 2009
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)	1,009	1,079
Average licensed beds (1)	1,009	1,079
Admissions	2,266	2,165
Patient days	61,719	59,145
Occupancy rate	67.2%	60.9%
Percent net patient service revenue from Medicare	62.4%	61.3%
Percent net patient service revenue from commercial payors and Medicaid (2)	37.6%	38.7%
Net patient service revenue per patient day	\$1,438	\$1,607

(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.