

LifeCare Holdings, Inc.

News Release

**For Immediate Release
Walker**

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469-241-2116**

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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 first quarter ended June 30, 2009.

Three Months Ended June 30, 2009

Net Revenues

Our net patient service revenue increased by \$5.0 million, or 5.8%, for the three months ended June 30, 2009, to \$91.6 million from \$86.6 million for the comparable period in 2008. Patient days and admissions decreased by 3.8% and 1.6%, respectively, during the three months ended June 30, 2009 as compared to the same period in 2008.

The \$5.0 million increase in net patient service revenue was comprised of a \$2.4 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 \$3.3 million attributable to the decrease in patient days, with a remaining increase of \$5.9 million attributable to an increase in revenue per patient day. The net increase of \$2.4 million for adjustments to previously filed cost reports was comprised of a favorable adjustment of \$1.4 million recorded in the three months ended June 30, 2009 offset by an unfavorable adjustment of \$1.0 million recorded in the three months ended June 30, 2008.

During the three months ended June 30, 2009 our net patient service revenue per patient day was \$1,590, as compared to \$1,447 for the 2008 period. However, exclusive of the cost report reimbursement adjustments discussed previously, net patient service revenue per patient day for the three months ended June 30, 2009 and 2008 was \$1,565 and \$1,463, respectively, or an increase of 7.0%. 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 increased by \$3.1 million to \$93.6 million for the three months ended June 30, 2009 as compared to \$90.5 million for the comparable period in 2008. The increase of \$3.1 million was primarily the result of an increase of \$2.8 million in other operating expenses and an increase of \$1.1 million in the provision for doubtful accounts, offset by a decrease of \$1.0 million in net interest expense.

The increase of \$2.8 million in other operating expenses was primarily attributable to an increase in clinical purchased services as a result of the treatment of higher acuity patients during the 2009 period, and an increase in insurance expenses as a result of the agreement with the insurance carriers in the amount of \$1.0 million related to Hurricane Katrina matters. The provision for doubtful accounts in the 2008 period included a benefit of \$0.8 million for collections on accounts that were previously fully reserved, whereas collections on similar reserved accounts in the 2009 period were nominal. 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 quarter ended June 30, 2009, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$12.0 million, an increase of \$0.8 million, or 7.1% 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 June 30, 2009, we believe we were in compliance with all covenants contained in our senior secured credit facility, as amended.

Six Months Ended June 30, 2009

Net Revenues

Our net patient service revenue increased by \$11.3 million, or 6.4%, for the six months ended June 30, 2009, to \$186.7 million from \$175.4 million for the comparable period in 2008. Patient days and admissions decreased by 4.0% and 3.1%, respectively, for the six months ended June 30, 2009 as compared to the same period in 2008.

The \$11.3 million increase in net patient service revenue was comprised of a \$2.8 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 \$7.0 million attributable to the decrease in patient days, with a remaining increase of \$15.5 million attributable to an increase in revenue per patient day. The net increase of \$2.8

million for adjustments to previously filed cost reports was comprised of a favorable adjustment of \$1.3 million recorded in the six months ended June 30, 2009 offset by an unfavorable adjustment of \$1.5 million recorded in the six months ended June 30, 2008.

During the six months ended June 30, 2009 and 2008, our net patient service revenue per patient day was \$1,599 and \$1,442, respectively. However, exclusive of the cost report reimbursement adjustments discussed previously, net patient service revenue per patient day for the six months ended June 30, 2009 and 2008 was \$1,588 and \$1,455, respectively, or an increase of 9.1%. 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, 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 \$4.1 million to \$186.1 million for the six months ended June 30, 2009 as compared to \$182.0 million for the comparable period in 2008. The increase of \$4.1 million in total expenses was primarily the result of an increase in salaries, wages and benefits of \$2.7 million and an increase in other operating expenses of \$3.8 million, offset by a decrease in net interest expense of \$2.6 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 as a result of the agreement with the insurance carriers in the amount of \$1.0 million related to Hurricane Katrina matters. 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 six months ended June 30, 2009, Credit Agreement EBITDA, was \$28.6 million, an increase of \$3.7 million, or 14.9% 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 June 30, 2009, our outstanding indebtedness consisted of \$130.4 million aggregate principal amount of senior subordinated notes due 2013, a \$245.4 million term loan facility that matures in 2012, and \$35.0 million outstanding on our revolving credit facility which matures in 2011. At June 30, 2009, the interest rate applicable to the \$245.4 million under our term loan facility was 5.29%, and the weighted average rate on the \$35.0 million outstanding balance of the revolving credit facility was 4.93%.

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, 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 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, 2009, Credit Agreement EBITDA was \$51.5 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.

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