

## **LifeCare Holdings, Inc.**

**News Release  
For Immediate Release  
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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 second quarter ended June 30, 2010.

#### ***Three Months Ended June 30, 2010***

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

Our net patient service revenue of \$90.6 million for the three months ended June 30, 2010, decreased \$1.0 million, or 1.1%, from \$91.6 million in the comparable period in 2009. Patient days in the 2010 period were 369, or 0.6%, greater than the same period in 2009, while admissions were 42, or 2.1%, less than the same period in 2009.

However, on a same store basis, which excludes the operations of our former hospital in Muskegon, MI, from the 2009 period, our net patient service revenue of \$90.6 million for the 2010 period represents a \$0.1 million increase from the 2009 period. Patient days in the 2010 period of 57,996 increased by 1,139, or 2.0%, while admissions of 2,000 decreased by 12, or 0.6%, on a same store basis. The increase in net patient service revenue of \$0.1 million during the 2010 period was attributable to a favorable variance of \$1.8 million as the result of the increase in patient days, offset by an unfavorable variance of \$1.7 million attributable to a decrease in net patient service revenue on a per patient day basis. The decrease in net patient service revenue on a per patient day basis was principally attributable to unfavorable adjustments of \$3.5 million recorded in the 2010 period as a result of changes in estimates and settlements on cost reports filed with the Medicare program.

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

Total expenses decreased by \$3.6 million to \$90.1 million for the three months ended June 30, 2010, as compared to the same period in 2009. On a same store basis however, which excludes the operations of our former hospital in Muskegon, MI, from the 2009 period, total expenses of \$90.1 million in the 2010 period decreased by \$2.2 million from the 2009 period. This decrease on a same store basis was primarily attributable to a decrease of \$1.1 million in insurance expense and a decrease of \$0.9 million in net interest expense. The decrease in insurance expense was the result of a \$1.0 million charge recorded in the 2009 period attributable to an agreement with the insurance carriers on Hurricane Katrina matters. The decrease in net interest expense was the result of lower interest rates on outstanding borrowings during the 2010 period and the decrease of \$11.1 million in outstanding principal of our senior subordinated notes as a result of the repurchase of these notes during the second half of the year ended December 31, 2009.

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

For the quarter ended June 30, 2010, adjusted EBITDA as defined in our senior credit facility, which we refer to as Credit Agreement EBITDA, was \$12.3 million, a decrease of \$0.6 million, 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. As of June 30, 2010, we believe we were in compliance with all covenants contained in our senior secured credit facility, as amended.

### ***Six Months Ended June 30, 2010***

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

Our net patient service revenue decreased by \$1.1 million, or 0.6%, for the six months ended June 30, 2010, to \$185.6 million from \$186.7 million for the comparable period in 2009. Patient days increased by 0.4% while admissions decreased 2.8%, for the six months ended June 30, 2010, as compared to the same period in 2009.

However, on a same store basis, which excludes the operations of our former hospital in Muskegon, MI, from the 2009 period, our net patient service revenue of \$185.6 million increased by \$1.5 million, or 0.8%, from \$184.1 million in the 2009 period. Patient days in the 2010 period of 117,248 increased by 2,335, or 2.0%, while admissions of 4,090 decreased by 49, or 1.2%. The increase in net patient service revenue of \$1.5 million during the 2010 period was attributable to a favorable variance of \$3.7 million as the result of the increase in patient days, offset by an unfavorable variance of \$2.2 million attributable to a decrease in net patient service revenue on a per patient day basis. The decrease in net patient service revenue on a per patient day basis was principally attributable to unfavorable adjustments of \$3.6 million recorded in the 2010 period as a result of changes in estimates and settlements on cost reports filed with the Medicare program.

#### ***Expenses***

Total expenses decreased by \$6.7 million to \$179.4 million for the six months ended June 30, 2010, as compared to \$186.1 million for the comparable period in 2009. On a same store basis however, which excludes the operations of our former hospital in Muskegon, MI, from the 2009 period, total expenses of \$179.4 million in the 2010 period decreased by \$3.9 million from the 2009 period. This decrease on a same store basis was primarily attributable to a decrease in insurance expense of \$1.0 million and a decrease of \$2.3 million in net interest expense. The decrease in insurance expense was the result of a \$1.0 million charge recorded in the 2009 period attributable to an agreement with the insurance carriers on Hurricane Katrina matters. The decrease in net interest expense was the result of lower interest rates on outstanding borrowings during the 2010 period and the decrease of \$11.1 million in outstanding principal of our senior subordinated notes as a result of the repurchase of these notes during the second half of the year ended December 31, 2009.

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

For the six months ended June 30, 2010, Credit Agreement EBITDA was \$28.0 million, a decrease of \$2.3 million, from the prior year period.

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

At June 30, 2010, our outstanding indebtedness consisted of \$119.3 million aggregate principal amount of senior subordinated notes due 2013, a \$242.9 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, 2010, the interest rate applicable to the \$242.9 million under our term loan facility was 4.59%, and the weighted average rate on the \$35.0 million outstanding balance of the revolving credit facility was 3.66%.

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.

As discussed previously, the financial covenant requirements in our senior secured credit facility become more restrictive throughout the remaining term of the facility. More specifically, the maximum leverage ratio test, which is currently at 7.00x of consolidated adjusted EBITDA (as defined in the credit agreement governing our senior secured credit facility, as amended), is scheduled to adjust to 6.00x beginning with the trailing 12-month period ended March 31, 2011, and thereafter. The minimum interest coverage ratio requirement, which is currently at 1.60x, is scheduled to increase to 1.75x beginning with the trailing 12-month period ended March 31, 2011, and then increases to 2.00x beginning with the trailing 12-month period ended March 31, 2012, and thereafter. We are continuing to pursue operational and strategic objectives that we expect will result in increased profitability and lower total indebtedness in order to remain in compliance with the financial covenant requirements. These objectives include, among other items, increasing the occupancy levels of our hospitals, reducing administrative and operating expenses, and reducing days of net patient service revenue in accounts receivable.

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, our operations. 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, 2010, 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, 2010, Credit Agreement EBITDA was \$52.4 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 June 30, 2009 and 2010**  
**(In thousands)**  
**(Unaudited)**

	<u>2009</u>	<u>2010</u>	<u>% Change</u>
Net patient service revenue	\$ 91,645	\$ 90,633	-1.1%
Expenses:			
Salaries, wages and benefits	42,412	42,669	0.6%
Supplies	8,708	9,313	6.9%
Rent	6,378	6,396	0.3%
Other operating expense	23,624	20,239	-14.3%
Provision for doubtful accounts	1,749	1,829	4.6%
Depreciation and amortization	2,745	2,537	-7.6%
Interest expense, net	8,025	7,089	-11.7%
Total expenses	<u>93,641</u>	<u>90,072</u>	<u>-3.8%</u>
Operating income (loss)	(1,996)	561	128.1%
Equity in income of joint venture	-	356	NM
Income (loss) before income taxes	<u>(1,996)</u>	<u>917</u>	<u>145.9%</u>
Provision for income taxes	175	225	28.6%
Net income (loss)	<u>\$ (2,171)</u>	<u>\$ 692</u>	<u>131.9%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income (loss) - per above	\$ (1,996)	\$ 561	
Adjusted for:			
Depreciation and amortization	2,745	2,537	
Interest expense, net	8,025	7,089	
(Income) loss attributable to unrestricted subsidiary	1,008	(2,135)	
Dividend from unrestricted subsidiary	-	1,405	
Non-cash charges	80	2,634	
Hospital closure/relocation/start-up losses	350	(7)	
New Orleans operations	1,094	57	
Cost saving initiatives	609	-	
Other credit agreement add-back items	<u>1,044</u>	<u>186</u>	
Credit Agreement EBITDA	<u>\$ 12,959</u>	<u>\$ 12,327</u>	

**Schedule 2**  
**Condensed Consolidated Statements of Operations**  
**For the Six Months Ended June 30, 2009 and 2010**  
**(In thousands)**  
**(Unaudited)**

	<u>2009</u>	<u>2010</u>	<u>% Change</u>
Net patient service revenue	\$ 186,669	\$ 185,593	-0.6%
Expenses:			
Salaries, wages and benefits	85,595	84,170	-1.7%
Supplies	17,463	18,552	6.2%
Rent	12,881	12,923	0.3%
Other operating expense	45,386	41,136	-9.4%
Provision for doubtful accounts	3,107	3,418	10.0%
Gain on early extinguishment of debt	(84)	-	NM
Depreciation and amortization	5,380	5,086	-5.5%
Interest expense, net	16,352	14,094	-13.8%
Total expenses	<u>186,080</u>	<u>179,379</u>	<u>-3.6%</u>
Operating income	589	6,214	955.0%
Equity in income (loss) of joint venture	<u>(537)</u>	<u>410</u>	<u>176.4%</u>
Income before income taxes	52	6,624	12638.5%
Provision for income taxes	400	400	-
Net income (loss)	<u>\$ (348)</u>	<u>\$ 6,224</u>	<u>1888.5%</u>
Reconciliation to Credit Agreement EBITDA:			
Operating income - per above	\$ 589	\$ 6,214	
Adjusted for:			
Depreciation and amortization	5,380	5,086	
Interest expense, net	16,352	14,094	
Gain on early extinguishment of debt	(84)	-	
(Income) loss attributable to unrestricted subsidiary	2,122	(5,007)	
Dividend from unrestricted subsidiary	-	3,591	
Non-cash charges	165	2,710	
Hospital closure/relocation/start-up losses	1,662	644	
New Orleans operations	1,120	106	
Cost saving initiatives	1,269	-	
Other credit agreement add-back items	<u>1,726</u>	<u>517</u>	
Credit Agreement EBITDA	<u>\$ 30,301</u>	<u>\$ 27,955</u>	

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

<b>Assets</b>	<b>December 31, 2009</b>	<b>June 30, 2010</b>
Current assets:		
Cash and cash equivalents	\$ 46,681	\$ 50,406
Accounts receivable, net	69,503	68,915
Income taxes receivable	1,182	1,457
Other current assets	7,543	7,414
Total current assets	<u>124,909</u>	<u>128,192</u>
Property and equipment, net	82,347	79,414
Goodwill and other identifiable intangibles, net	261,535	263,937
Other assets	10,855	9,781
	<u>\$ 479,646</u>	<u>\$ 481,324</u>
<b>Liabilities and Stockholder's Equity Deficit</b>		
Current liabilities:		
Payables and accruals	\$ 51,205	\$ 46,128
Estimated third-party payor settlements	9,957	4,827
Current installments of long-term debt	2,550	2,550
Current installments of obligations under capital leases	833	1,107
Current installment of lease financing obligation	444	461
Total current liabilities	<u>64,989</u>	<u>55,073</u>
Long-term debt, excluding current installments	395,912	394,637
Obligations under capital leases, excluding current installments	1,010	752
Lease financing obligation	20,038	19,803
Accrued insurance	4,371	4,439
Other noncurrent liabilities	10,605	14,557
Total liabilities	<u>496,925</u>	<u>489,261</u>
Stockholder's equity deficit	(17,279)	(7,937)
	<u>\$ 479,646</u>	<u>\$ 481,324</u>

**Schedule 4**  
**Condensed Consolidated Statements of Cash Flows**  
**For the six months ended June 30, 2009 and 2010**  
**(In thousands)**  
**(Unaudited)**

	<u>2009</u>	<u>2010</u>
Cash flows from operating activities:		
Net income (loss)	\$ (348)	\$ 6,224
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,474	6,235
Provision for doubtful accounts	3,107	3,418
Equity compensation amortization	160	147
Gain on early extinguishment of debt	(84)	-
Equity in income (loss) of joint venture	537	(410)
Changes in operating assets and liabilities:		
Accounts receivable	(5,411)	(2,830)
Other current assets	(194)	(142)
Other assets	288	334
Estimated third-party payor settlements	(8,773)	(5,130)
Accounts payable and accrued expenses	(1,885)	(4,710)
Other liabilities	(1,218)	4,020
Net cash provided by (used in) operating activities	<u>(7,347)</u>	<u>7,156</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(2,605)</u>	<u>(1,355)</u>
Net cash used in investing activities	<u>(2,605)</u>	<u>(1,355)</u>
Cash flows from financing activities:		
Net change in borrowings under the line of credit	25,000	-
Payments of long-term debt	(1,338)	(1,275)
Payments on obligations under capital leases	(607)	(583)
Payments on lease financing obligation	<u>(247)</u>	<u>(218)</u>
Net cash provided by (used in) financing activities	<u>22,808</u>	<u>(2,076)</u>
Net increase in cash and cash equivalents	12,856	3,725
Cash and cash equivalents, beginning of period	<u>25,262</u>	<u>46,681</u>
Cash and cash equivalents, end of period	<u>\$ 38,118</u>	<u>\$ 50,406</u>

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

	<b>Three months ended June 30, 2009</b>	<b>Three months ended June 30, 2010</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	1,057
Average licensed beds (1)	1,079	1,058
Admissions	2,042	2,000
Patient days	57,627	57,996
Occupancy rate	58.7%	60.2%
Percent net patient service revenue from Medicare	60.4%	56.0%
Percent net patient service revenue from commercial payors and Medicaid (2)	39.6%	44.0%
Net patient service revenue per patient day	\$1,590	\$1,563

  

	<b>Six months ended June 30, 2009</b>	<b>Six months ended June 30, 2010</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	1,057
Average licensed beds (1)	1,079	1,058
Admissions	4,207	4,090
Patient days	116,772	117,248
Occupancy rate	59.8%	61.2%
Percent net patient service revenue from Medicare	60.9%	58.6%
Percent net patient service revenue from commercial payors and Medicaid (2)	39.1%	41.4%
Net patient service revenue per patient day	\$1,599	\$1,583

(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 two percent for each of the periods presented.