



Advocat Announces 2009 Third Quarter Results

Revenue and Income Increased, and Fourth Quarter Dividend is Declared

BRENTWOOD, Tenn., (November 9, 2009) – Advocat Inc. ((NASDAQ: AVCA) today announced its results for the third quarter and nine months ended September 30, 2009. A fourth quarter dividend of \$0.05 per share was declared on November 3, 2009 and will be paid in January 2010 to shareholders of record on December 31, 2009.

Highlights for Third Quarter 2009

Key Highlights for the third quarter of 2009 compared to the third quarter of 2008 include the following:

- Revenue increased 6.7% to \$77.1 million in 2009 compared to \$72.2 million in 2008.
- Occupancy increased to 77.1% in 2009 compared to 75.3% in the third quarter of 2008 and 76.6% in the second quarter of 2009.
- Medicare rates increased 4.4% compared to 2008 as a result of annual inflation adjustments and the acuity levels of Medicare patients in the Company's nursing centers.
- Medicaid rates increased 5.4% in 2009 compared to 2008 as a result of rate increases in certain states, increasing patient acuity levels and provider tax increases.
- Net income from continuing operations was \$1.1 million in 2009 up \$0.7 million from 2008, or \$0.18 per diluted common share compared to \$0.10 per diluted common share in 2008.
- Funds provided by operations were \$3.0 million in 2009 compared to \$2.3 million in the third quarter of 2008.

CEO Remarks

William R. Council, III, noted, "We continue to make steady progress in this difficult economic environment. I'm pleased we have been able to increase occupancy in this difficult economy, and we are containing costs wherever possible. The renovated facilities are performing very well and we are adding sites to the program. Our new facility in Paris, Texas has done very well, with census increasing 28% since the opening in late August.

Mr. Council continued, "In the four years since we embarked upon a renovation program we have completed improvements on 12 nursing centers, and we continue to be pleased with the results of this program. For the third quarter of 2009 compared to the last twelve months prior to commencement of the renovation, the average return on investment for the eleven renovations completed prior to the beginning of the third quarter of 2009 was 41%. We are very pleased with the completion of the Brentwood Terrace replacement facility in Paris, Texas, with completion on time and under budget. The response the brand new state-of-the-art facility has generated as well as the community's support have been extremely gratifying."

Other Highlights for the Third Quarter 2009

Revenue increased to \$77.1 million in 2009 from \$72.2 million in 2008, an increase of \$4.9 million, or 6.7%. This increase is primarily due to increased Medicaid rates in certain states, increased Medicaid census, and Medicare rate increases.

The following table summarizes key revenue and census statistics for continuing operations for each period:

[Click here for Table Summarizing Key Revenue and Census Statistics](#)

The Company's average rate per day for Medicare Part A patients increased 4.4% in 2009 compared to 2008 as a result of annual inflation adjustments and the acuity levels of Medicare patients in its nursing centers, as indicated by RUG level scores, which were higher in 2009 than in 2008. The Company's average rate per day for Medicaid patients increased 5.4% in 2009

compared to 2008 as a result of rate increases in certain states, partially funded by increased provider taxes, and increasing patient acuity levels.

Key expense items for the third quarter include:

- Operating expense increased to \$61.8 million in 2009 from \$58.3 million in 2008, an increase of \$3.5 million, or 6.1%. Operating expense decreased to 80.2% of revenue in 2009, compared to 80.7% of revenue in 2008.
- The largest component of operating expenses is wages, which increased to \$37.4 million in 2009 from \$35.6 million in 2008, an increase of \$1.8 million, or 5.1%. Wages increased primarily because of labor costs associated with increased census and patient acuity levels, competitive labor markets in most of the areas in which the Company operates and regular merit and inflationary raises for personnel (increase of approximately 1.6% for the period).
- Cash expenditures for professional liability costs were \$1.4 million in 2009 compared to \$1.7 million for 2008.
- Employee health insurance costs were approximately \$0.8 million higher in 2009 compared to 2008, a 54.5% increase in costs.
- Provider taxes increased approximately \$0.7 million in 2009, primarily a result of new rate legislation in Florida.
- Transition of residents and operations to the newly constructed Brentwood Terrace replacement facility and the increase in census at this new building resulted in approximately \$0.2 million in increased operating costs for additional wages, maintenance, advertising and travel that are not expected to be incurred in future periods.
- Bad debt expense was \$0.3 million lower in 2009 compared to 2008.
- General and administrative expense totaled \$4.6 million in 2009 and in 2008. As a percentage of revenue, general and administrative expense decreased to 6.0% in 2009 from 6.4% in 2008.

Funds provided by operations were \$3.0 million in 2009 compared to \$2.3 million in the third quarter of 2008; this improvement resulted primarily from the Company's operating income and revenue increases as a result of increased occupancy and average daily rate.

Revenue and Income Highlights for Nine Months

Revenue increased to \$226.9 million in 2009 from \$214.5 million in 2008, an increase of \$12.4 million, or 5.8%. This increase is primarily due to increased Medicaid rates in certain states, Medicare rate increases, and increased Medicaid census, partially offset by the effects of lower Medicare census.

Income from continuing operations before income taxes was \$4.0 million for nine months ended September 30, 2009 compared to \$6.9 million for the same period in 2008. The major difference was attributable to professional liability expense which was \$7.1 million in 2009 compared to \$636,000 in 2008. The diluted income per common share from continuing operations was \$0.38 and \$0.71 for 2009 and 2008, respectively.

Replacement Facility

In August 2009, the Company completed construction of Brentwood Terrace, a new 119 bed nursing center, replacing an older facility. The daily census as of October 31, 2009 increased to 86 compared to 67 as of August 25, 2009, the day we moved into the facility, and Medicare census increased to 10 compared to 7. For the third quarter of 2009, average daily census increased to 72 compared to 37 for the second quarter of 2008, when we began construction, and Medicare average daily census increased to 8 compared to 3.

Facility Renovation Update

During 2005, Advocat began an initiative to complete strategic renovations of certain facilities to improve occupancy, quality of care and profitability. Management developed a plan to begin with those facilities with the greatest potential for benefit, and began the renovation program during the third quarter of 2005. As of September 30, 2009, renovation projects have been completed at eleven facilities, a twelfth was completed in the fourth quarter of 2009, and work has commenced on projects at two additional nursing centers, including a 15 bed expansion at one nursing center. Plans for additional renovation projects are in development.

A total of \$15.6 million has been spent on the eleven completed renovations, with \$10.0 million financed through Omega, \$4.5 million financed with internally generated cash, and \$1.1 million financed with long-term debt.

A table is included with this press release summarizing operating results at renovated nursing centers.

Conference Call Information

A conference call has been scheduled for Tuesday, November 10, 2009 at 9:00 A.M. Central time (10:00 A.M. Eastern time) to discuss third quarter 2009 results.

The conference call information is as follows:

Date: Tuesday, November 10, 2009

Time: 9:00 A.M. Central, 10:00 A.M. Eastern

Webcast Links: www.streetevents.com; www.earnings.com; www.irinfo.com/avc

Dial in numbers: **888-679-8033** (domestic) or **617-213-4846** (international)

Passcode: **96156913**

The call will consist of remarks from management as well as a question and answer session. In addition to the questions posed during the live call, management will also be addressing questions submitted by email. If you would like to submit a question please email it to InvestorRelations@advocat-inc.com before the start of the call.

Please use the following link to pre-register and view important information about this conference call. Pre-registering is not mandatory, but is recommended as it will provide you immediate entry into the call and will facilitate the timely start of the call. Pre-registration takes only a few minutes and you may pre-register at any time, including up to and after the call start time. To pre-register, please go to:

<https://www.theconferencingservice.com/prereg/key.process?key=PQECVX3VA>

A replay of the conference call will be accessible two hours after its completion through November 17, 2009 by dialing **888-286-8010** (domestic) or **617-801-6888** (international) and entering passcode **96087248**.

FORWARD-LOOKING STATEMENTS

The "forward-looking statements" contained in this release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are predictive in nature and are frequently identified by the use of terms such as "may," "will," "should," "expect," "believe," "estimate," "intend," and similar words indicating possible future expectations, events or actions. These forward-looking statements reflect the Company's current views with respect to future events and present its estimates and assumptions only as of the date of this release. Actual results could differ materially from those contemplated by the forward-looking statements made herein. In addition to any assumptions and other factors referred to specifically in connection with such statements, other factors, many of which are beyond our ability to control or predict, could cause our actual results to differ materially from the results expressed or implied in any forward-looking statements including, but not limited to, our expected refinancing in the ordinary course of business our revolving line of credit coming due in August 2010, our ability to arrange appropriate financing and successfully construct and operate the replacement facility for the recently acquired facility in West Virginia, our ability to increase census at our renovated facilities, changes in governmental reimbursement, government regulation and health care reforms, any increases in the cost of borrowing under our credit agreements, our ability to comply with covenants contained in those credit agreements, the outcome of professional liability lawsuits and claims, our ability to control ultimate professional liability costs, the accuracy of our estimate of our anticipated professional liability expense, the impact of future licensing surveys, the outcome of regulatory proceedings alleging violations of laws and regulations governing quality of care or violations of other laws and regulations applicable to our business, our ability to control costs, changes to our valuation of deferred tax assets, changes in occupancy rates in our facilities, changing economic and competitive conditions, changes in anticipated revenue and cost growth, changes in the anticipated results of operations, the effect of changes in accounting policies as well as other risk factors detailed in the Company's Securities and Exchange Commission filings. The Company has provided additional information in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as well as in its Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission, which readers are encouraged to review for further disclosure of other factors. These assumptions may not materialize to the extent assumed, and risks and uncertainties may cause actual results to be different from anticipated results. These risks and uncertainties also may result in changes to the Company's business plans and prospects. Advocat Inc. is not responsible for updating the information contained in this press release beyond the published date, or for changes made to this document by wire services or Internet services.

Advocat provides long term care services to patients in 50 skilled nursing centers, primarily in the Southeast and Southwest.

[Press Release with Financial Tables in PDF Format](#)