

**Advocat Inc.**  
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## **NEWS RELEASE**

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### **ADVOCAT REPORTS THIRD QUARTER RESULTS AND RESTATED FIRST AND SECOND QUARTERS**

FRANKLIN, Tenn. (January 12, 2000) - Advocat Inc. (Nasdaq OTC:AVCA) today reported its results for the third quarter ended September 30, 1999, and its restated results for the first and second quarters of 1999. In connection with the November 23, 1999, release of its results for the nine months ended September 30, 1999, the Company announced that, subject to completion of an analysis, certain charges recorded in the third quarter might apply to either or both of its previously reported interim results for the first and second quarters of 1999. The reported results for the three quarters today reflect completion of that analysis.

For the third quarter of 1999, net revenues were \$44.5 million compared with \$51.3 million in the third quarter of 1998. The decline in revenue was primarily due to lower patient and ancillary revenues resulting from changes in Medicare reimbursement and a decline in Medicare patient census.

Operating expenses for the third quarter decreased to \$39.7 million compared with \$40.2 million in the third quarter of last year. Although Advocat has implemented significant cost reductions in response to the Medicare reimbursement changes, certain operating expenses have risen, including the provision for doubtful accounts, increased reserves for the self-insured portion of liability claims, and higher salaries and wages. The Company also experienced higher lease and general and administrative expenses. Advocat recorded a net loss of \$4.2 million, or \$0.77 per share, in the third quarter of 1999 compared with net income of \$800,000, or \$0.15 per diluted share, in the third quarter of 1998.

As a result of the Company's analysis of charges taken for the nine months ended September 30, 1999, first quarter results were restated and resulted in a reduction in pre-tax operations of \$1.4 million. As restated, Advocat's first quarter net loss was \$983,000, or \$0.18 per share, compared with a net loss of \$118,000, or \$0.02 per share, as originally reported for the first quarter of 1999. Restated shareholders' equity as of March 31, 1999, was \$26.6 million and total assets were \$118.3 million compared with \$27.5 million and \$118.6 million, respectively, as

-MORE-

## AVC Reports Third Quarter Results

Page 2

January 12, 2000

previously reported.

Second quarter results for 1999 were also restated and resulted in a reduction in pre-tax operations of \$4.2 million. As restated, Advocat's second quarter net loss was \$2.6 million, or \$0.48 per share, compared with a net loss of \$97,000, or \$0.02 per share, as originally reported for the second quarter of 1999. Restated shareholders' equity as of June 30, 1999, was \$24.2 million and total assets were \$114.6 million compared with \$27.7 million and \$116.7 million, respectively, as previously reported.

The adjustments to the first and second quarter results primarily included an increase in allowance for bad debts; increase in self-insurance reserves for workers' compensation claims; accrual of fines, penalties and taxes; accrual of severance benefits; certain expenses related to leases; and reversal of revenue previously accrued.

The Company also reported that it is currently not in compliance with various financial covenants contained in its loan agreements with its primary bank and other lenders. Cross-default and other provisions contained in other loan agreements will under certain circumstances permit the holders of a majority of the Company's debt to demand immediate repayment. The Company has total bank and other debt of \$61.8 million as of September 30, 1999, of which approximately \$27 million must be repaid or refinanced in 2000. However, because of the non-compliance the Company has classified \$55.6 million as current liabilities. Management is currently in various stages of negotiations with the Company's bank and other lenders for the restructuring of this approximately \$27 million in debt that has maturity dates in February or April 2000. No assurance can be given that the Company will successfully negotiate a restructuring, including appropriate waivers, of its indebtedness. If any of the Company's lenders forced immediate repayment, the Company would not be able to repay the amounts outstanding.

*Forward-looking statements made in this release involve a number of risks and uncertainties, including but not limited to, factors affecting the long-term care industry in general, governmental reimbursement, government regulation, health care reforms, the impact of future licensing surveys, changing economic and market conditions and other risk factors detailed in the Company's Securities and Exchange Commission filings.*

Advocat Inc. operates 122 facilities including 57 assisted living facilities with 5,320 units and 65 skilled nursing facilities containing 7,307 licensed beds. The Company operates facilities in 12 states, primarily in the Southeast, and three provinces in Canada.

For additional information about the Company, visit Advocat's web site:

<http://www.irinfo.com/avc>

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**ADVOCAT INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

(In thousands, except per share data)

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
<b>REVENUES:</b>				
Patient revenues	\$ 33,865	\$ 41,716	\$ 105,071	\$ 126,662
Resident revenues	9,735	8,649	27,962	25,983
Management fee revenues	860	896	2,656	2,708
Interest income	<u>40</u>	<u>44</u>	<u>113</u>	<u>143</u>
Net revenues	<u>44,500</u>	<u>51,305</u>	<u>135,802</u>	<u>155,496</u>
<b>EXPENSES:</b>				
Operating	39,710	40,163	115,466	123,546
Lease	5,251	4,816	15,155	14,379
General and administrative	3,482	2,703	9,372	8,159
Interest	1,494	1,349	4,126	3,848
Depreciation and amortization	1,152	1,024	3,447	2,818
Non-recurring charges	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,468</u>
Total expenses	<u>51,089</u>	<u>50,055</u>	<u>147,566</u>	<u>154,218</u>
Income (loss) before income taxes	(6,589)	1,250	(11,764)	1,278
Provision (benefit) for income taxes	<u>(2,372)</u>	<u>450</u>	<u>(4,235)</u>	<u>460</u>
Income (loss) before cumulative effect of change in accounting principle	(4,217)	800	(7,529)	818
Cumulative effect of change in accounting principle	<u>0</u>	<u>0</u>	<u>(277)</u>	<u>0</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (4,217)</u>	<u>\$ 800</u>	<u>\$ (7,806)</u>	<u>\$ 818</u>
Basic and diluted earnings (loss) per share:				
Income (loss) before accounting change	\$ (0.77)	\$ 0.15	\$ (1.39)	\$ 0.15
Accounting change, net of tax	<u>0.00</u>	<u>0.00</u>	<u>(0.05)</u>	<u>0.00</u>
Net income (loss)	<u>\$ (0.77)</u>	<u>\$ 0.15</u>	<u>\$ (1.44)</u>	<u>\$ 0.15</u>
Average Shares:				
Basic	<u>5,942,000</u>	<u>5,399,000</u>	<u>5,430,000</u>	<u>5,384,000</u>
Diluted	<u>5,492,000</u>	<u>5,403,000</u>	<u>5,430,000</u>	<u>5,395,000</u>

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**ADVOCAT INC.**  
**CONSOLIDATED BALANCE SHEETS.**  
(Unaudited)  
(In thousands, except per share data)

	<u>Sept. 30,</u> <u>1999</u>	<u>Dec. 31,</u> <u>1998</u>
Assets:		
Cash and cash equivalents	\$ 1,341	\$ 2,347
Accounts receivable, net	12,147	26,289
Other current assets	<u>4,480</u>	<u>5,149</u>
Total current assets	17,968	33,785
Property and equipment, net	67,060	66,592
Investments in joint ventures	8,026	7,194
Deferred tax benefit	10,251	6,338
Other assets	<u>6,403</u>	<u>7,385</u>
Total assets	<u>\$ 109,708</u>	<u>\$ 121,294</u>
Liabilities:		
Current maturities of long-term debt	\$ 55,604	\$ 30,126
Other current liabilities	<u>17,065</u>	<u>19,892</u>
Total current liabilities	72,669	50,018
Long-term debt, less current portion	6,238	33,514
Other non-current liabilities	<u>10,743</u>	<u>10,201</u>
Total liabilities	89,650	93,733
Shareholders' equity	<u>20,058</u>	<u>27,561</u>
Total liabilities and shareholders' equity	<u>\$ 109,708</u>	<u>\$ 121,294</u>