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## **ADVOCAT ANNOUNCES REFINANCING AND 2006 SECOND QUARTER RESULTS**

**BRENTWOOD, Tenn., (August 9, 2006)** – Advocat (OTC BB: AVCA) today announced results for its second quarter and six months ended June 30, 2006. In addition, the Company announced the completion of its comprehensive refinancing transaction.

Advocat provides long-term care services to nursing home patients in eight states, primarily in the southeast. The Company has 43 centers containing 4,505 licensed nursing beds.

### **DEBT REFINANCING**

On August 7, 2006, the Company entered into a \$30.6 million comprehensive refinancing with Capmark Finance, Inc. which retired existing mortgage and bank term debt and provided funds for a \$1.1 million renovation of a nursing center.

The new debt includes \$22.5 million in mortgages with 25 year principal amortization and a five year term, and an \$8.1 million term note with a four year term. In addition, the Company made a payment of approximately \$2.5 million to reduce outstanding debt. The refinancing allows Advocat to classify \$24.5 million in debt that was refinanced in the transaction as long-term at June 30, 2006. Advocat is now in compliance with all its debt covenants.

### **INCOME STATEMENT HIGHLIGHTS FOR THE SECOND QUARTER**

Net income from continuing operations for the quarter was \$3.5 million compared to \$1.8 million for the same quarter last year. The 2006 results included a net benefit for professional liability expense of \$3.9 million compared to a net expense of \$1.5 million in 2005, a decrease in expense of \$5.4 million.

The Company recorded a non-cash charge for stock-based compensation of \$5.0 million, related to stock options approved by the Company's shareholders in June 2006. The options were granted in December 2005 subject to shareholder approval, which occurred at the Company's annual meeting of shareholders.

For the three month period, net income per common share from continuing operations on a diluted basis was \$0.53 compared to \$0.27 for 2005. There were 6.6 million diluted weighted average shares outstanding in the second quarter of 2006.

### **REVENUE HIGHLIGHTS AND OCCUPANCY RATES**

For the second quarter, revenue increased to \$53.9 million from \$49.6 million in 2005, an increase of \$4.3 million or 8.6%. The increase was due to increased Medicare utilization, increased Medicaid rates in certain states, Medicare rate increases, and an increase in census in 2006 compared to 2005.



The rate of occupancy at the Company's nursing centers increased to 77.7% in 2006 from 75.4% in 2005. As a percentage of total census, Medicare days increased to 14.2% in 2006 from 13.2% in 2005. Medicare was 31.1% of revenue in 2006 and 30.7% in 2005 while Medicaid and similar programs were 55.5% in 2006 compared to 57.7%.

The Company's average rate per day for Medicare Part A patients increased to \$322.79 from \$308.31 in 2005, an increase of 4.7%.

#### **FUNDS PROVIDED BY OPERATIONS**

Management believes that reviewing funds provided by operations is an important measurement of the Company's performance. The net cash provided by operating activities before changes in other assets and liabilities (or funds provided by operations) is presented at the end of this press release. Funds provided by operations eliminate the effect of actuarial assumptions, reflects the cash effect of professional liability, and excludes the non-cash charge for stock-based compensation. Funds provided by operations for the current quarter were \$4.7 million compared to \$3.1 million in the second quarter last year.

#### **REVENUE AND INCOME HIGHLIGHTS FOR 6 MONTHS**

Revenue increased to \$107.1 million in 2006 from \$98.5 million, an increase of 8.7%. Income from continuing operations for the six month period was \$9.0 million compared to \$10.8 million for 2005.

The Company recorded a non-cash charge for stock-based compensation of \$5.0 million. There was no stock-based compensation expense in 2005.

Professional liability expense was a net benefit of \$6.0 million versus a net benefit of \$5.8 million in the prior year.

For the six month periods, net income from continuing operations per diluted common share was \$1.53 compared to \$1.64 in 2005.

#### **CEO REMARKS**

William R. Council stated, "The Company's results for the second quarter, excluding the impact of professional liability actuarial adjustments and the non cash stock-based compensation expense, continue to reflect the positive trends of the last several quarters. These favorable results are the culmination of many of the Company's initiatives coming together, including increasing occupancy and Medicare census.

"The completion of the comprehensive refinancing transactions with Capmark Finance Inc. is a significant, and in some ways, final step in accomplishing the Company's restructuring following a period of difficult operations. The refinancing allows the Company to extend maturities of its debt to 4 and 5 years, revises covenants such that the Company is in compliance and provides financing for the \$1.1 million renovation of one of the buildings owned by the Company.

"We have now completed renovations at two nursing centers, and have two projects underway that are scheduled to be completed during the third quarter. For facilities with three months of operations after completing a renovation, occupancy increased to approximately 75% from 58% last year, and Medicare utilization increased to approximately 21% from 13% last year."



## CONFERENCE CALL INFORMATION

A conference call has been scheduled to discuss the results for the period ended June 30, 2006, on Thursday, August 10 at 9:00 A.M. Central time (10:00 A.M. Eastern time).

The conference call information is as follows:

Date: Thursday, August 10, 2006  
Time: 9:00 A.M. Central, 10:00 A.M. Eastern  
Webcast Links: <http://phx.corporate-ir.net/playerlink.zhtml?c=77083&s=wm&e=1362527>  
[www.streetevents.com](http://www.streetevents.com)  
[www.earnings.com](http://www.earnings.com)  
[www.irinfo.com/avc](http://www.irinfo.com/avc)

Dial in numbers: **(866) 578-5771** (domestic) or **(617) 213-8055** (international)  
Passcode: **22517246**

A replay of the conference call will be accessible two hours after its completion through August 17, 2006 by dialing **(888) 286-8010** (domestic) or **(617) 801-6888** (international) and entering passcode **44014105**. Additionally, the conference call may contain certain additional non-GAAP financial measures. Pursuant to the requirements of Regulation G, the Company will provide a reconciliation of all non-GAAP financial measures not previously reconciled to the most directly comparable GAAP financial measure on its website. Details and links to the reconciliations of any non-GAAP financial measures discussed during the conference call will be posted to the Company's website prior to the conference call at [www.irinfo.com/avc](http://www.irinfo.com/avc).

## FORWARD-LOOKING STATEMENTS

Forward-looking statements made in this release involve a number of risks and uncertainties, including but not limited to, changes in governmental reimbursement, government regulation and health care reforms, the increased cost of borrowing under our credit agreements, 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, changing economic conditions 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, 2005, as well as in other filings with the Securities and Exchange Commission, which readers are encouraged to review for further disclosure of other factors that could cause actual results to differ materially from those indicated in the forward-looking statements. 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.

For additional information about the Company, visit Advocat's web site: <http://www.irinfo.com/avc>

*-Financial Tables to Follow-*



**ADVOCAT INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
	(Unaudited)	
<b>ASSETS:</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,503	\$ 7,070
Restricted cash	350	625
Receivables, net	17,436	18,147
Deferred income taxes	798	1,004
Other current assets	5,647	5,180
Total current assets	34,734	32,026
Property and equipment, net	27,842	39,421
Deferred income taxes	14,285	12,856
Note receivable, net	4,923	5,198
Other assets, net	3,902	4,261
<b>TOTAL ASSETS</b>	<b>\$ 85,686</b>	<b>\$ 93,762</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT:</b>		
<b>Current Liabilities</b>		
Short-term debt and current portion of long-term debt and settlement promissory notes	\$ 9,316	\$ 47,419
Trade accounts payable	3,882	4,415
Accrued expenses:		
Payroll and employee benefits	7,499	8,495
Current portion of self-insurance reserves	5,229	5,952
Other current liabilities	4,417	5,715
Total current liabilities	30,343	71,996
<b>Noncurrent Liabilities</b>		
Long-term debt and settlement promissory notes, less current portion	24,455	128
Self-insurance reserves, less current portion	22,961	29,041
Other noncurrent liabilities	4,728	4,717
Total noncurrent liabilities	52,144	33,886
<b>REDEEMABLE CONVERTIBLE PREFERRED STOCK</b>	4,918	4,750
<b>SHAREHOLDERS' DEFICIT</b>	(1,719)	(16,870)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	<b>\$ 85,686</b>	<b>\$ 93,762</b>

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**ADVOCAT INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)  
(In thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
<b>PATIENT REVENUES, NET</b>	\$ 53,895	\$ 49,607	\$ 107,082	\$ 98,491
<b>EXPENSES:</b>				
Operating	40,668	37,420	81,298	75,752
Lease	3,828	4,079	7,653	7,961
Professional liability	(3,853)	1,461	(6,000)	(5,781)
General and administrative	3,716	3,316	7,197	6,708
Stock-based compensation	5,012	-	5,012	-
Depreciation	926	825	1,870	1,685
	<u>50,297</u>	<u>47,101</u>	<u>97,030</u>	<u>86,325</u>
<b>OPERATING INCOME</b>	<u>3,598</u>	<u>2,506</u>	<u>10,052</u>	<u>12,166</u>
<b>OTHER INCOME (EXPENSE):</b>				
Foreign currency transaction gain (loss)	249	(66)	240	(122)
Other income	-	-	207	-
Interest income	165	152	348	269
Interest expense	(877)	(780)	(1,876)	(1,549)
	<u>(463)</u>	<u>(694)</u>	<u>(1,081)</u>	<u>(1,402)</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<u>3,135</u>	<u>1,812</u>	<u>8,971</u>	<u>10,764</u>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	<u>(387)</u>	<u>51</u>	<u>(1,116)</u>	<u>62</u>
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<u>3,522</u>	<u>1,761</u>	<u>10,087</u>	<u>10,702</u>
<b>INCOME (LOSS ) FROM DISCONTINUED OPERATIONS:</b>				
Operating income (loss), net of tax provision (benefit) of \$0, \$(31), \$0 and \$(42), respectively	52	(134)	170	(487)
Gain (loss) on sale, net of tax provision of \$0, \$0 , \$0 and \$0, respectively	(128)	7	(120)	383
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<u>(76)</u>	<u>(127)</u>	<u>50</u>	<u>(104)</u>
<b>NET INCOME</b>	<u>3,446</u>	<u>1,634</u>	<u>10,137</u>	<u>10,598</u>
<b>PREFERRED STOCK DIVIDENDS, ACCRUED BUT NOT PAID</b>	<u>85</u>	<u>78</u>	<u>168</u>	<u>156</u>
<b>NET INCOME FOR COMMON STOCK</b>	<u>\$ 3,361</u>	<u>\$ 1,556</u>	<u>\$ 9,969</u>	<u>\$ 10,442</u>
<b>NET INCOME PER COMMON SHARE:</b>				
<b>Per common share – basic</b>				
Income from continuing operations	\$ .60	\$ .29	\$ 1.73	\$ 1.84
Income (loss) from discontinued operations	(.02)	(.02)	.01	(.02)
	<u>\$ .58</u>	<u>\$ .27</u>	<u>\$ 1.74</u>	<u>\$ 1.82</u>
<b>Per common share – diluted</b>				
Income from continuing operations	\$ .53	\$ .27	\$ 1.53	\$ 1.64
Income (loss) from discontinued operations	(.01)	(.02)	.01	(.02)
	<u>\$ .52</u>	<u>\$ .25</u>	<u>\$ 1.54</u>	<u>\$ 1.62</u>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>				
Basic	<u>5,746</u>	<u>5,725</u>	<u>5,743</u>	<u>5,725</u>
Diluted	<u>6,596</u>	<u>6,498</u>	<u>6,544</u>	<u>6,498</u>

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**ADVOCAT INC.**  
**FUNDS PROVIDED BY OPERATIONS**  
(Unaudited)  
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>NET INCOME</b>	<b>\$ 3,446</b>	<b>\$ 1,634</b>	<b>\$ 10,137</b>	<b>\$ 10,598</b>
Income (loss) from discontinued operations	<u>(76)</u>	<u>(127)</u>	<u>50</u>	<u>(104)</u>
Net income from continuing operations	<b>3,522</b>	<b>1,761</b>	<b>10,087</b>	<b>10,702</b>
Adjustments to reconcile net income from continuing operations to funds provided by operations:				
Depreciation	<b>926</b>	825	<b>1,870</b>	1,685
Provision for doubtful accounts	<b>595</b>	258	<b>936</b>	743
Deferred income taxes, net	<b>(445)</b>	-	<b>(1,223)</b>	-
Provision for (benefit from) accrual for self-insured professional liability, net	<b>(4,004)</b>	1,308	<b>(6,304)</b>	(6,080)
Payment of professional liability costs	<b>(637)</b>	(1,196)	<b>(1,183)</b>	(2,231)
Stock-based compensation	<b>5,012</b>	-	<b>5,012</b>	-
Amortization of deferred balances	<b>36</b>	59	<b>87</b>	198
Provision for leases in excess of cash payments	<b>3</b>	92	<b>11</b>	109
Gain on sale of bed license	-	-	<b>(207)</b>	-
Foreign currency transaction (gain) loss	<b>(249)</b>	66	<b>(240)</b>	122
Non-cash interest expense	<b>43</b>	41	<b>86</b>	81
Non-cash interest income	<u>(98)</u>	<u>(117)</u>	<u>(206)</u>	<u>(222)</u>
<b>FUNDS PROVIDED BY OPERATIONS</b>	<b><u>\$ 4,704</u></b>	<b><u>\$ 3,097</u></b>	<b><u>\$ 8,726</u></b>	<b><u>\$ 5,107</u></b>

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