

ADVOCAT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2009	December 31, 2008
	(Unaudited)	
ASSETS:		
Current Assets		
Cash and cash equivalents	\$ 12,101	\$ 7,598
Receivables, net	25,018	23,503
Current portion of note receivable	—	466
Deferred income taxes	4,095	3,967
Other current assets	4,431	3,345
Total current assets	45,645	38,879
Property and equipment, net	42,284	37,456
Deferred income taxes	14,259	13,899
Note receivable, net	—	3,486
Acquired leasehold interest, net	9,957	10,149
Other assets, net	2,862	3,040
TOTAL ASSETS	\$ 115,007	\$ 106,909
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities		
Current portion of long-term debt	\$ 3,325	\$ 2,238
Trade accounts payable	5,351	4,600
Accrued expenses:		
Payroll and employee benefits	11,309	9,545
Current portion of self-insurance reserves	7,751	6,469
Other current liabilities	4,662	5,142
Total current liabilities	32,398	27,994
Noncurrent Liabilities		
Long-term debt, less current portion	26,134	30,172
Self-insurance reserves, less current portion	11,861	10,212
Other noncurrent liabilities	18,462	13,089
Total noncurrent liabilities	56,457	53,473
PREFERRED STOCK	7,042	7,891
SHAREHOLDERS' EQUITY	19,110	17,551
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 115,007	\$ 106,909

ADVOCAT INC.
CONSOLIDATED INCOME STATEMENTS
(Unaudited)
(In thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
PATIENT REVENUES, NET	\$ 76,051	\$ 70,845	\$ 149,809	\$ 142,311
EXPENSES:				
Operating	59,398	55,999	117,628	111,535
Lease	5,785	5,746	11,561	11,450
Professional liability	2,955	1,401	6,197	358
General and administrative	4,801	4,647	9,374	9,206
Depreciation and amortization	1,475	1,317	2,884	2,559
	74,414	69,110	147,644	135,108
OPERATING INCOME	1,637	1,735	2,165	7,203
OTHER INCOME (EXPENSE):				
Foreign currency transaction gain	276	62	191	(167)
Other income	-	-	549	-
Interest income	79	120	154	280
Interest expense	(485)	(703)	(967)	(1,534)
	(130)	(521)	(73)	(1,421)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,507	1,214	2,092	5,782
PROVISION (BENEFIT) FOR INCOME TAXES	(570)	(505)	(792)	(1,972)
NET INCOME FROM CONTINUING OPERATIONS	937	709	1,300	3,810
DISCONTINUED OPERATIONS:				
Operating loss, net of tax benefit of \$3, \$12, \$3 and \$19, respectively	(7)	(19)	(7)	(31)
NET INCOME	930	690	1,293	3,779
PREFERRED STOCK DIVIDENDS	86	86	172	172
NET INCOME FOR COMMON STOCK	\$ 844	\$ 604	\$ 1,121	\$ 3,607
NET INCOME PER COMMON SHARE:				
Per common share – basic				
Income from continuing operations	\$ 0.15	\$ 0.11	\$ 0.20	\$ 0.64
Loss from discontinued operations	-	-	-	(0.01)
	\$ 0.15	\$ 0.11	\$ 0.20	\$ 0.63
Per common share – diluted				
Income from continuing operations	\$ 0.15	\$ 0.11	\$ 0.20	\$ 0.61
Loss from discontinued operations	-	(0.01)	-	-
	\$ 0.15	\$ 0.10	\$ 0.20	\$ 0.61
WEIGHTED AVERAGE COMMON SHARES:				
Basic	5,676	5,676	5,674	5,715
Diluted	5,746	5,906	5,738	5,947

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

	Three Months Ended			Six Months Ended	
	June 30,		March 31,	June 30,	
	2009	2008	2009	2009	2008
NET INCOME	\$ 930	\$ 690	\$ 363	\$ 1,293	\$ 3,779
Discontinued operations	(7)	(19)	-	(7)	(31)
Net income from continuing operations	937	709	363	1,300	3,810
Adjustments to reconcile net income from continuing operations to funds provided by operations:					
Depreciation and amortization	1,475	1,317	1,409	2,884	2,559
Provision for doubtful accounts	637	467	804	1,441	1,023
Deferred income tax provision (benefit)	(694)	151	206	(488)	(47)
Provision (benefit) for self-insured professional liability, net of cash payments	2,098	(618)	1,017	3,115	(2,031)
Stock-based compensation	170	233	224	394	411
Amortization of deferred balances	95	101	95	190	230
Provision for leases in excess of cash payments	326	451	328	654	917
Noncash gain on settlement of contingent liability	-	-	(549)	(549)	-
Other	(293)	(98)	61	(232)	98
	<u>\$ 4,751</u>	<u>\$ 2,713</u>	<u>\$ 3,958</u>	<u>\$ 8,709</u>	<u>\$ 6,970</u>
FUNDS PROVIDED BY OPERATIONS					
Reconciliation of funds provided by operations to cash flow from operating activities:					
Funds provided by operations	\$ 4,751	\$ 2,713	3,958	8,709	\$ 6,970
Changes in other assets and liabilities affecting operating activities:					
Receivables, net	(1,053)	1,746	(1,903)	(2,956)	1,423
Prepaid expenses and other assets	949	(1,019)	(864)	85	(691)
Trade accounts payable and accrued expenses	(801)	(1,454)	1,996	1,195	(3,219)
Net cash provided by operating activities of continuing operations	<u>\$ 3,846</u>	<u>\$ 1,986</u>	<u>\$ 3,187</u>	<u>\$ 7,033</u>	<u>\$ 4,483</u>

Advocat provides financial measures using accounting principles generally accepted in the United States (GAAP) and using adjustments to GAAP (non-GAAP). These non-GAAP measures are not measurements under GAAP. These measurements should be considered in addition to, but not as a substitute for, the information contained in our financial statements prepared in accordance with GAAP. Funds Provided by Operations is defined as cash flow from operating activities before changes in other assets and liabilities affecting operating activities. Management believes that Funds Provided by Operations is an important measurement of the Company's performance because it eliminates the effect of actuarial assumptions on our professional liability reserves, includes the cash effect of professional liability payments, and does not include the effects of deferred tax benefit and other non-cash charges. Since the definition of Funds Provided by Operations may vary among companies and industries, it should not be used as a measure of performance among companies.

ADVOCAT INC.
SELECTED OPERATING STATISTICS
JUNE 30, 2009
(Unaudited)

For the Three Months Ended June 30, 2009

Region	As of June 30, 2009		Skilled Nursing Weighted Average Daily Census	Occupancy (Note 1)		Medicare Utilization	2009 Q2 Revenue (\$ in millions) (Note 2)	Medicare	Medicaid
	Licensed Beds	Available Beds		Licensed Beds	Available Beds			Room and Board Revenue PPD 2009 (Note 3)	Room and Board Revenue PPD 2009 (Note 3)
Alabama	711	704	615	86.5%	87.3%	14.3%	\$ 11.7	\$408.11	\$163.27
Arkansas	1,311	1,183	943	72.0%	79.7%	15.2%	15.2	374.41	137.34
Florida	502	462	399	79.5%	86.4%	9.6%	7.8	416.52	177.44
Kentucky (Note 4)	775	742	660	85.2%	89.0%	12.7%	12.7	413.01	168.39
Tennessee	617	586	488	79.1%	83.3%	16.0%	8.5	382.27	138.32
Texas	<u>1,857</u>	<u>1,655</u>	<u>1,314</u>	<u>70.8%</u>	<u>79.4%</u>	<u>11.7%</u>	<u>19.8</u>	<u>422.04</u>	<u>120.17</u>
Total	<u>5,773</u>	<u>5,332</u>	<u>4,419</u>	<u>76.6%</u>	<u>82.9%</u>	<u>13.2%</u>	<u>\$75.7</u>	<u>\$401.29</u>	<u>\$145.22</u>

Note 1: The number of "Licensed beds" is based on the licensed capacity of the facility. The Company has historically reported its occupancy based on licensed beds. The number of "Available Beds" represents "licensed beds" less beds removed from service. "Available beds" is subject to change based upon the needs of the facilities, including configuration of patient rooms and offices, status of beds (private, semi-private, ward, etc.) and renovations.

Note 2: Total revenue for regions excludes approximately \$0.4 million of ancillary services and other revenue for the three month period ended June 30, 2009.

Note 3: These Medicare and Medicaid revenue rates include room and board revenues but do not include any ancillary revenues related to these patients.

Note 4: The Kentucky region includes nursing centers in Kentucky, West Virginia and Ohio.

ADVOCAT INC.
SELECTED OPERATING STATISTICS OF RENOVATED FACILITIES
JUNE 30, 2009
(Unaudited)

Renovation – Completion Date	Occupancy ⁽¹⁾		Medicare Average Daily Census	
	Q2 2009	LTM ⁽²⁾ Prior	Q2 2009	LTM ⁽²⁾ Prior
1 st renovation – January 2006	86.8%	64.9%	14.4	8.1
2 nd renovation – July 2006	71.8%	71.2%	14.0	12.3
3 rd renovation – August 2006	63.3%	45.1%	9.1	5.3
4 th renovation – October 2006	82.8%	71.9%	11.7	8.6
5 th renovation – February 2007	65.1%	56.2%	10.8	8.0
6 th renovation – April 2007	50.8%	47.5%	10.9	12.7
7 th renovation – July 2007	86.8%	85.0%	16.3	17.4
8 th renovation – January 2008	67.5%	50.9%	14.8	8.9
9 th renovation – October 2008	87.3%	83.0%	18.4	17.2
10 th renovation – November 2008	88.3%	80.8%	14.5	12.2
11 th renovation – March 2009	<u>59.0%</u>	<u>62.5%</u>	<u>12.6</u>	<u>7.0</u>
Total	<u>73.6%</u>	<u>66.5%</u>	<u>147.5</u>	<u>117.7</u>

⁽¹⁾ Occupancy based on licensed beds.

⁽²⁾ Last Twelve Months prior to commencement of construction.

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