

FORM 10-Q

ASSISTED LIVING CONCEPTS INC - ALC

Filed: May 11, 2007 (period: March 31, 2007)

Quarterly report which provides a continuing view of a company's financial position

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10-Q - QUARTERLY REPORT

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-13498

Assisted Living Concepts, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

93-1148702

(I.R.S. Employer Identification No.)

111 West Michigan Street, Milwaukee, Wisconsin 53203

(Address of Principal Executive Offices)

Telephone: (414) 908-8800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 9, 2007, the Company had 60,169,888 shares of its Class A Common Stock, \$0.01 par value outstanding and 9,344,023 shares of its Class B Common Stock, \$0.01 par value outstanding.

ASSISTED LIVING CONCEPTS, INC.

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Part I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS**

ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	<u>(Unaudited)</u>	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 28,396	\$ 19,951
Investments	4,938	5,332
Accounts receivable, less allowances of \$936 and \$1,086 respectively	5,180	5,395
Supplies, prepaid expenses and other current assets	7,828	8,178
Income tax receivable	—	90
Deferred income taxes	1,325	1,552
Total current assets	<u>47,667</u>	<u>40,498</u>
Property and equipment, net	374,943	374,612
Goodwill and other intangible assets, net	17,569	18,102
Restricted cash	9,949	10,947
Other assets	3,292	3,181
Total Assets	<u>\$ 453,420</u>	<u>\$ 447,340</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 4,120	\$ 5,134
Accrued liabilities	20,022	19,580
Current maturities of long-term debt	2,781	2,732
Income taxes payable	2,219	—
Current portion of self-insured liabilities	300	300
Total current liabilities	<u>29,442</u>	<u>27,746</u>
Accrual for self-insured liabilities	1,164	1,171
Long-term debt	87,187	87,904
Deferred income taxes	5,470	5,146
Other long-term liabilities	8,755	8,535
Total Liabilities	<u>132,018</u>	<u>130,502</u>
Preferred Stock, par value \$0.01 per share, 25,000,000 shares authorized, none issued or outstanding	—	—
Series A Common Stock, par value \$0.01 per share, 400,000,000 authorized, 60,056,892 and 59,501,918 issued and outstanding, respectively	601	595
Series B Common Stock, par value \$0.01 per share, 75,000,000 authorized, 9,440,074 and 9,956,337 issued and outstanding, respectively	94	100
Additional paid-in capital	313,553	313,474
Accumulated other comprehensive income	288	530
Retained earnings	6,866	2,139
Total Stockholders' Equity	<u>321,402</u>	<u>316,838</u>
Total Liabilities and Stockholders' Equity	<u>\$ 453,420</u>	<u>\$ 447,340</u>

The accompanying notes are an integral part of these consolidated financial statements.

ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2007	2006
Revenues	\$ 57,521	\$ 56,776
Expenses:		
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	37,758	37,917
General and administrative	2,987	2,751
Residence lease expense	3,699	3,488
Depreciation and amortization	4,181	4,123
Transaction costs	56	—
Total operating expenses	<u>48,681</u>	<u>48,279</u>
Income from operations	8,840	8,497
Other expense:		
Interest expense, net	<u>(1,215)</u>	<u>(2,830)</u>
Income from continuing operations before income taxes	7,625	5,667
Income tax expense	<u>(2,898)</u>	<u>(2,189)</u>
Net income from continuing operations	4,727	3,478
Loss from discontinued operations, net of taxes	—	<u>(1,168)</u>
Net income	<u>\$ 4,727</u>	<u>\$ 2,310</u>
Weighted average common shares:		
Basic	69,482	69,322
Diluted	70,205	70,205
Per share data:		
Basic earnings per common share:		
Income from continuing operations	\$ 0.07	\$ 0.05
Loss from discontinued operations	—	(0.02)
Net income	<u>\$ 0.07</u>	<u>\$ 0.03</u>
Diluted earnings per common share:		
Income from continuing operations	\$ 0.07	\$ 0.05
Loss from discontinued operations	—	(0.02)
Net income	<u>\$ 0.07</u>	<u>\$ 0.03</u>

The accompanying notes are an integral part of these consolidated financial statements.

ASSISTED LIVING CONCEPTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES:		
Net income	\$ 4,727	\$ 2,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,181	4,177
Amortization of purchase accounting adjustments for:		
Leases and debt	(215)	(131)
Below market resident leases	(39)	(475)
Provision for bad debt	150	139
Provision for self-insured liabilities	150	177
Payments of self-insured liabilities	(143)	(117)
Loss on impairment of long-lived assets and discontinued operations	—	1,722
Deferred income taxes	551	240
Equity-based compensation expense	6	278
Changes in assets and liabilities:		
Accounts receivable	65	(333)
Supplies, prepaid expenses and other current assets	350	(171)
Accounts payable	(1,014)	(917)
Accrued liabilities	442	645
Income taxes payable/receivable	2,461	1,557
Other non-current assets	887	(64)
Other long-term liabilities	353	232
Current due to stockholder and affiliates	—	2,882
Cash provided by operating activities	<u>12,912</u>	<u>12,151</u>
INVESTING ACTIVITIES:		
Payments for new construction projects	(1,152)	(771)
Payments for purchases of property and equipment	(2,827)	(1,425)
Cash used in investing activities	<u>(3,979)</u>	<u>(2,196)</u>
FINANCING ACTIVITIES:		
Capital contributions (distributions) from (to) Extencicare	73	(35)
Repayment of interest bearing advances to Extencicare	—	(6,500)
Payments of long-term debt	(561)	(516)
Cash used in financing activities	<u>(488)</u>	<u>(7,051)</u>
Increase in cash and cash equivalents	8,445	2,904
Cash and cash equivalents, beginning of year	19,951	6,439
Cash and cash equivalents, end of period	<u>\$ 28,396</u>	<u>\$ 9,343</u>
Supplemental schedule of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,792	\$ 2,946
Income tax payments, net of refunds	(113)	129

The accompanying notes are an integral part of these consolidated financial statements.

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Assisted Living Concepts, Inc. and its subsidiaries (“ALC” or the “Company”) operate 207 assisted living residences in 17 states in the United States totaling 8,324 units as of March 31, 2007. ALC’s residences average approximately 40 units and offer residents a supportive, home-like setting and assistance with the activities of daily living.

ALC became an independent, publicly traded company listed on the New York Stock Exchange on November 10, 2006 (the “Separation Date”) when ALC Class A and Class B Common Stock was distributed to Extencicare Inc. (“Extencicare”) stockholders (the “Separation”).

Effective upon the Separation, the ownership structure of the entities changed and as such became consolidated. All references to ALC financial statements, both pre- and post-Separation Date will hereinafter be referred to as “consolidated” versus “combined.”

The consolidated financial statements of ALC represent, prior to the Separation Date, the consolidated financial position and results of operations of the assisted living operations of Extencicare in the United States. After the Separation Date, the consolidated financial statements represent 178 assisted living residences operated by ALC, 177 of which comprised ALC when it was acquired by Extencicare Health Services, Inc. (“EHSI”) (the “Acquisition”) in January of 2005, and 29 residences purchased from EHESI, a subsidiary of Extencicare, shortly before the Separation.

On June 19, 2006, ALC formed Pearson Insurance Company, LTD (“Pearson”), a wholly owned Bermuda based captive insurance company to self-insure general and professional liability risks.

For periods prior to the Separation Date, the historical consolidated financial and other data in this report have been prepared to include all of Extencicare’s assisted living business in the United States, consisting of:

- the assisted living residences operated by EHESI through the Separation Date, which ranged from 29 to 36 residences between January 1, 2003 and the date of the Acquisition and consisted of 32 residences operated by EHESI at December 31, 2005,
- 177 assisted living residences operated by ALC since the time of the Acquisition,
- three assisted living residences that were constructed and owned by EHESI (two of which were operated by ALC) during 2005,
- the Escanaba, MI residence since its acquisition on November 1, 2006, and
- Pearson since its formation on June 19, 2006.

Prior to the Separation, operations were terminated at four of the EHESI residences and are presented as discontinued operations. At the Separation Date the historical financial statements consisted of 209 residences.

The historical consolidated financial and other operating data prior to the Separation Date do not contain data related to certain assets and operations that were transferred to ALC such as share investments in Omnicare, Inc. (“Omnicare”), Bam Investments Corporation (“BAM”), and MedX Health Corporation (“MedX”), or cash and other investments in Pearson, and do include certain assets and operations that were not transferred to ALC in connection with the Separation such as certain EHESI properties as they did not fit the targeted portfolio profile or were not readily separable from EHESI’s operations. The differences between the historical consolidated financial data and financial data for the assets and the operations transferred in the Separation are immaterial.

ALC operates in a single business segment with all revenues generated from those properties located within the United States.

The accompanying unaudited consolidated financial statements include all normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the three month period ended March 31, 2007

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and 2006 pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. Operating results are not necessarily indicative of results that may be expected for the entire year ending December 31, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Presentation and Consolidation

Prior to November 10, 2006, the consolidated financial statements include a combination of historical financial assets and operations of the assisted living operations of Extendicare described in Note 1. For periods after the Separation Date the consolidated financial statements include the 178 assisted living residences operated by ALC, the 29 residences purchased from Extendicare, and Pearson. The accompanying consolidated financial statements include the financial statements of Assisted Living Concepts, Inc. and all its majority owned subsidiaries. All significant intercompany accounts and transactions with subsidiaries have been eliminated from the consolidated financial statements.

The consolidated financial statements of the Company have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management’s most significant estimates include revenue recognition and valuation of accounts receivable, measurement of acquired assets and liabilities in business combinations, valuation of assets, and determination of asset impairment, self-insured liabilities for general and professional liability, workers’ compensation and health and dental claims, valuation of conditional asset retirement obligations, and valuation of deferred tax assets. Actual results could differ from those estimates.

(b) Accounts Receivable

Accounts receivable are recorded at the net realizable value expected to be received from individual residents or their responsible parties (“private payers”) and government assistance programs such as Medicaid.

At both March 31, 2007 and December 31, 2006, the Company had approximately 43% of its accounts receivable derived from private sources, with the balance owing under various state Medicaid programs. Although management believes there are no credit risks associated with these government agencies other than possible funding delays, claims filed under the Medicaid program can be denied if not properly filed prior to a statute of limitations. End of period receivables are predominately Medicaid because private payers are generally billed and collected in advance whereas Medicaid programs cannot be billed and collected until services have been performed.

The Company periodically evaluates the adequacy of its allowance for doubtful accounts by conducting a specific account review of amounts in excess of predefined target amounts and aging thresholds, which vary by payer type. Allowances for uncollectibility are considered based upon the evaluation of the circumstances for each of these specific accounts. In addition, the Company has established internally-determined percentages for establishing an allowance for doubtful accounts, which is based upon historical collection trends for each payer type and age of the receivables. Accounts receivable that the Company specifically estimates to be uncollectible, based upon the above process, are fully reserved for in the allowance for doubtful accounts until they are written off or collected. In both the three month periods ended March 31, 2007 and 2006 the Company had write-offs of accounts receivable of \$0.3 million. Bad debt expense was \$0.2 million and \$0.1 million in the three month periods ended March 31, 2007 and 2006, respectively.

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity which under GAAP, are excluded from results of operations. In 2007 and 2006, this consists of unrealized gains and losses on available for sale investment securities, net of any related tax effect.

	Three Months Ended	
	March 31,	
	2007	2006
	(In thousands)	
Net income	\$ 4,727	\$ 2,310
Unrealized gains (losses)	(242)	—
Total comprehensive income	<u>\$ 4,485</u>	<u>\$ 2,310</u>

(d) Income Taxes

Prior to the Separation Date, the Company's results of operations were included in the consolidated federal tax return of the Company's most senior U.S. parent company, Extencicare Holdings, Inc. ("EHI"). Federal current and deferred income taxes payable (or receivable) were determined as if the Company had filed its own income tax returns. As of the Separation Date, the Company is responsible for filing its own income tax returns. In all periods presented, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"), which became effective for the Company on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. For the benefits of a tax position to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The adoption of FIN 48 has not resulted in a transition adjustment to retained earnings. On the date of adoption the Company had \$0.5 million of unrecognized tax benefits. If recognized, \$0.2 million would affect the effective tax rate. The total amount of accrued interest costs and penalties related to income taxes are \$0.1 million. The Company classified the interest expense and penalties as income tax expense in the Company's financial statements. Tax returns for all years after 2002 are subject to future examination by tax authorities.

(e) New Accounting Pronouncements

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition and disclosure purposes under GAAP. SFAS No. 157 will require the fair value of an asset or liability to be based on a market based measure which will reflect the credit risk of the company. SFAS No. 157 will also require expanded disclosure requirements which will include the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. SFAS No. 157 will be applied prospectively and will be effective for fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently assessing the impact SFAS No. 157 will have on our consolidated financial statements.

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(f) Reclassifications

Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation. Such reclassifications had no effect on previously reported net income or stockholders' equity.

3. DISCONTINUED OPERATIONS

The following is a summary of the results of operations for residences that have been disposed of, or were under a plan of divestiture for the three months ended March 31, 2006.

	<u>2006</u>
	<u>(In thousands)</u>
Revenues	\$ 487
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	522
Residence lease expense	101
Depreciation and amortization	53
Loss on impairment of long-lived assets	<u>1,731</u>
Loss from discontinued operations	(1,920)
Interest expense	<u>(7)</u>
Loss from discontinued operations before income taxes	(1,927)
Income tax benefit	<u>759</u>
Net loss from discontinued operations	<u>\$ (1,168)</u>

The above summary of discontinued operations includes the following:

(a) Closure and Disposition of Assisted Living Residence in Texas

In the first quarter of 2006, due to future capital needs of the residence and poor financial performance, ALC decided to close an assisted living residence (60 units) located in San Antonio, Texas, and actively pursue the disposition of the property on the market. As a result, ALC reclassified the financial results of this residence to discontinued operations and recorded an impairment charge of \$1.7 million.

(b) Closure of Assisted Living Residences in Washington

In the first quarter of 2006, the lease term ended for an assisted living residence (63 units) in Edmonds, Washington, and ALC decided to terminate its operations due to poor financial performance. ALC concluded its relationship with the landlord on April 30, 2006. As a result, ALC reclassified the financial results of this residence to discontinued operations. There was no gain or loss on disposition of the operations and leasehold interest.

(c) Closure of Assisted Living Residence in Oregon

In the first quarter of 2006, due to poor financial performance, ALC decided to close an assisted living residence (45 units) located in Klamath Falls, Oregon. There was no gain or loss recorded upon the closure.

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LONG-TERM EQUITY-BASED COMPENSATION PROGRAM

Effective October 31, 2006, the Board of Directors approved and adopted and our sole stockholder approved the Assisted Living Concepts, Inc. 2006 Omnibus Incentive Compensation Plan (the “2006 Omnibus Plan”). The 2006 Omnibus Plan is administered by the Compensation/Nomination/Governance Committee of the Board of Directors (the “Committee”) and provides for grants of a variety of incentive compensation awards, including stock options, stock appreciation rights, restricted stock awards, restricted stock units, cash incentive awards and other equity-based or equity-related awards (performance awards).

A total of 4,000,000 shares of our Class A common stock are reserved for issuance under the 2006 Omnibus Plan. Awards with respect to a maximum of 200,000 shares may be granted to any one participant in any fiscal year (subject to adjustment for stock distributions or stock splits). The maximum aggregate amount of cash and other property other than shares that may be paid or delivered pursuant to awards to any one participant in any fiscal year is \$2 million.

On March 30, 2007, the Committee approved the 2007 Long-Term Equity-Based Compensation Program and granted awards of tandem non-qualified stock options and stock appreciation rights (“Options/SARs”) to certain key employees (including executive officers) under the terms of the 2006 Omnibus Plan. The aggregate maximum number of Options/SARs granted to all participants was 380,000. The Options/SARs have both time vesting and performance vesting features. If the established performance goals (related to reductions in Medicaid occupancy and maintenance of overall occupancy) are achieved in fiscal 2007, the Options/SARs become exercisable in one third increments on the first, second and third anniversaries of the grant date. Once exercisable, awards may be exercised either by purchasing shares of Class A common stock at the exercise price or exercising the stock appreciation right. The Committee has sole discretion to determine whether stock appreciation rights are settled in shares of Class A common stock, cash or a combination of shares of Class A common stock and cash. The Options/SARs have an exercise price of \$11.80, the closing price of the Class A common stock on the New York Stock Exchange on the grant date, and expire five years from the grant date.

In December 2004, the FASB issued SFAS No. 123 (revised), *Share-Based Payment* (“SFAS No. 123R”), which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS No. 123R requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. ALC adopted SFAS 123R in connection with its initial grants of Options/SARs effective March 30, 2007. A summary of Options/SARs activity as of and for the three month period ended March 31, 2007 is presented below.

	<u># Options / SARs</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value (In thousands)</u>
Outstanding on January 1, 2007	—	—	
Granted	380,000	\$ 11.80	
Exercised	—	—	
Cancelled/Forfeited	—	—	
Outstanding on March 31, 2007	<u>380,000</u>	<u>\$ 11.80</u>	<u>\$ —</u>
Options Exercisable March 31, 2007	—	\$ —	\$ —
Weighted average fair value of options	<u>\$ 6.01</u>		
Weighted average contractual term	<u>4.9 years</u>		

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALC uses the Black-Scholes option value model to estimate the fair value of stock options and similar instruments. Stock option valuation models require various assumptions, including the expected stock price volatility, risk-free interest rate, dividend yield, and forfeiture rate. In estimating the fair value of the Options/SARs granted on March 30, 2007, the Company used a risk free rate equal to the five year U.S. Treasury yield in effect on the grant date. The expected life of the Options/

SARs (five years) was estimated using expected exercise behavior of option holders. Expected volatility was based on an average of a peer group's historical volatility for a period equal to the Options/SARs' expected life, ending on the date of grant. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. Because of a lack of history, the forfeiture rate, was estimated at 0 percent of the Options/SARs awarded and may be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. The Options/SARs have characteristics that are significantly different from those of traded options and changes in the various input assumptions can materially affect the fair value estimates. The fair value of the Options/SARs was estimated at the date of grant using the following weighted average assumptions.

	2007
Expected life from grant date (in years)	5
Risk-free interest rate	5.45%
Volatility	53.1%
Dividend yield	—
Weighted average fair value (per share)	\$6.01

The grant of the Options/SAR's had no impact on the diluted number of shares in the quarter ended March 31, 2007. Compensation expense of \$6,000 related to the Options/SARs was recorded in the quarter ended March 31, 2007. Unrecognized compensation cost at March 31, 2007 is approximately \$2.3 million and the weighted average period over which it is expected to be recognized is three years.

5. EARNINGS PER SHARE

ALC computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted, and present per share data for all periods in which statements of operations are presented. For the three month period ended March 31, 2006, basic and diluted earnings per share are computed using the shares outstanding as of the Separation Date. Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the weighted average number of common stock and common stock equivalents outstanding. Common stock equivalents consist of incremental shares available upon conversion of Class B common shares which are convertible into Class A common shares at a rate of 1.075.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three month periods ended March 31, 2007 and 2006.

	Three Months Ended	
	March 31,	
	2007	2006
	(In thousands, except per share data)	
Basic earnings per share calculation		
Numerator:		
Income from continuing operations	\$ 4,727	\$ 3,478
Loss from discontinued operations, net of tax	—	(1,168)
Net income to common stockholders	<u>\$ 4,727</u>	<u>\$ 2,310</u>
Denominator:		
Weighted average of common shares outstanding	<u>69,482</u>	<u>69,322</u>
Income from continuing operations	\$ 0.07	\$ 0.05
Loss from discontinued operations, net of tax	—	(0.02)
Basic earnings per share	<u>\$ 0.07</u>	<u>\$ 0.03</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share data)	
Diluted earnings per share calculation		
Numerator:		
Income from continuing operations	\$ 4,727	\$ 3,478
Income from discontinued operations, net of tax	<u>—</u>	<u>(1,168)</u>
Net income to common stockholders	<u>\$ 4,727</u>	<u>\$ 2,310</u>
Denominator:		
Weighted average of common shares outstanding	69,482	69,322
Assumed conversion of Class B shares	<u>723</u>	<u>883</u>
Diluted weighted average shares outstanding	<u>70,205</u>	<u>70,205</u>
Income from continuing operations	\$ 0.07	\$ 0.05
Income from discontinued operations, net of tax	<u>—</u>	<u>(0.02)</u>
Diluted earnings per share	<u>\$ 0.07</u>	<u>\$ 0.03</u>

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Forward-looking statements are subject to risks, uncertainties and assumptions which could cause actual results to differ materially from those projected, including those described or referred to in Item 1A – Risk Factors in Part II of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and in Part II, Item 5 – Other Information – Forward-Looking Statements and Cautionary Factors in this report.

The following discussion should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements in Part I, Item 1 of this report.

Management's Discussion and Analysis of Financial Condition and Results of Operations is organized as follows:

- *Business Overview.* This section provides a general financial description of our business. More specifically, this section describes the sources and composition of our revenues and operating expenses. In addition, this section outlines the key performance indicators that we use to monitor and manage our business and anticipate future trends.
- *Consolidated Results of Operations.* This section provides an analysis of our results of operations for the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006.
- *Liquidity and Capital Resources.* This section provides a discussion of our liquidity and capital resources as of March 31, 2007, and our expected future cash needs.
- *Critical Accounting Policies.* This section discusses accounting policies which we consider to be critical to obtain an understanding of our consolidated financial statements because their application requires significant judgment and reliance on estimations of matters that are inherently uncertain. Our critical accounting policies are those that require significant judgment and estimates on the part of management in their application.

Business Overview

General

Although our exit from Medicaid contracts was accelerated in the first quarter of 2007, our business strategy previously outlined in our Annual Report on Form 10-K remains unchanged. Since the first quarter of 2006 we exited 16 Medicaid contracts and reduced our Medicaid population by 288 residents of which 226 occurred in the first quarter of 2007. Since the first quarter of 2006 we increased our private pay population by 298 residents.

Approximately 180 of our discharged Medicaid residents in the first quarter of 2007 resulted from our decision not to enter into managed service agreements under the Medicaid program in the State of Texas. Had the State of Texas not initiated managed service agreements with their Medicaid program, we would not have exited those Medicaid contracts at this time. This resulted in a decrease in our overall census in the first quarter of 2007 as compared to the fourth quarter of 2006. We expect to continue to exit Medicaid contracts during the second quarter of 2007 at a pace similar to the first quarter of 2007. We believe we will continue to fill these vacated units with private pay residents but do not expect to do so at the same pace at which Medicaid residents are currently being discharged. As a result, we believe it is likely that our overall census will decrease in the second quarter of 2007 as compared to the first quarter of 2007.

Revenues

We generate revenue from private pay and Medicaid sources. For the three month periods ended March 31, 2007 and 2006, approximately 81.4% and 78.1%, respectively, of our revenue was generated from private pay sources. Residents are charged a fee that is based on the type of accommodation they occupy and a services fee that is based upon their assessed level of care. ALC generally offers studio, one-bedroom and two-bedroom accommodations. The accommodation fee is based on prevailing market rates of similar assisted living accommodations. The assessed level of care service fee is based upon periodic assessments, which includes input of the resident, their physician and family, and establishes the additional hours of care and service provided to the resident. We offer various levels of care for assisted living residents who require less or more frequent and intensive care or supervision. For the three month periods ended March 31, 2007 and 2006, approximately 80% and 81%,

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respectively, of our private pay revenue was derived from the accommodation fee. For the three month periods ended March 31, 2007 and 2006, approximately 19% and 18%, respectively, was derived from the level of care services fee. Both the accommodation and level of care service fee are charged on a rate per day basis, pursuant to residency agreements entered on a month to month term.

Medicaid rates are generally lower than rates earned from private pay. Therefore, we consider our private pay mix an important performance measurement indicator.

Although we intend to continue to reduce the number of units occupied by residents paying through Medicaid, we currently provide assisted living services to Medicaid funded residents in 9 of the 17 states in which we operate. The Medicaid program in each state determines the revenue rate for accommodation and level of care. The basis of the Medicaid rate varies by state and in certain states is subject to negotiation. We normally receive our new annual Medicaid rates in July of each year.

Residence Operations Expenses

The largest component of our residence operations expense consists of wages and benefits, utilities and property related costs, and variable operating costs related to the provision of services to our residents.

For all continuing residences, residence operations expense percentage consisted of the following.

	Three Months Ended March 31,	
	2007	2006
Wage and benefit costs	57%	60%
Utility and property costs	16	16
Variable resident care costs	27	24
Total residence operation costs	100%	100%

A significant portion of our wages and benefits are fixed and do not vary based upon occupancy, as we must employ a minimum number of employees to properly maintain our residences and provide care and services to our residents. However, as we expand by building additional capacity at existing residences, constructing new residences or purchasing additional residences, we would expect our fixed costs related to wages, utilities and property costs to increase. A smaller portion of our wages and benefits vary because they are contingent upon occupancy, as we offer bonus programs to all levels of staff, including residence staff, to promote common corporate objectives including high quality of services and private pay occupancy levels. Other than these contingent costs, directly variable costs pertain only to food, supplies, and certain administrative expenses.

General and Administrative Costs

As a result of the Separation, we now require services and incur additional costs associated with being a public company. In addition certain other general and administrative costs that had been shared with Extencicare since ALC was acquired by Extencicare Health Services, Inc. ("EHSI"), a wholly-owned subsidiary of Extencicare, in January of 2005 (the "Acquisition") are being re-established after completion of the Separation. Certain of these costs were in place as of the Separation Date; however, quarter over quarter we anticipate additional annual public company costs relating to the full year effect of:

- board of director fees;
- Sarbanes-Oxley compliance;
- hiring additional members of the management team;
- stock registration and listing fees;
- other general and administrative costs anticipated for reporting and compliance;
- quarterly and annual filings;
- transfer agent fees;
- public relations; and
- directors' and officers' liability insurance.

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Subsequent to the Acquisition, certain general and administrative services have been provided to us by Extendicare. Extendicare's incremental costs, and, in the case of information technologies, the price that Extendicare's related company, Virtual Care Provider Inc. ("VCPI"), sold services to external clients, was charged to us. Some of these services previously provided through Extendicare will be provided directly to us by third party vendors. Pursuant to transitional services agreements with subsidiaries of Extendicare, certain services will continue to be provided to us on a transitional basis. These services include information technology, payroll and employee benefits processing, and reimbursement services (Medicaid cost reporting in the state of Texas).

Key Performance Indicators

We manage our business by monitoring certain key performance indicators. We believe our most important key performance indicators are:

Census

Census is defined as the number of units that are occupied at a given time.

Average Daily Census

Average Daily Census, or ADC, is the sum of occupied units for each day over a period of time, divided by the number of days in that period.

Occupancy Percentage or Occupancy Rate

Occupancy is measured as the percentage of average daily census relative to the total available units. Total operational resident capacity is the number of units available for occupancy in the period.

Private Pay Mix

Private pay mix is the measure of the percentage of private or non-Medicaid census. We focus on increasing the level of private pay funded units.

Average Revenue Rate by Payer Source

The average revenue rate by each payer source represents the average daily revenues earned from accommodation and level of care services provided to private pay and Medicaid residents. The daily revenue is calculated by the aggregate revenues earned by payer type, divided by the total ADC in the corresponding period.

EBITDA and EBITDAR

Adjusted EBITDA is defined as net income from continuing operations before income taxes, interest expense net of interest income, depreciation and amortization, equity based compensation expense, transaction costs and non-cash, non-recurring gains and losses, including disposal of assets and impairment of long-lived assets and loss on refinancing or retirement of debt. Adjusted EBITDAR is defined as adjusted EBITDA before rent expenses incurred for leased assisted living properties. Adjusted EBITDA and adjusted EBITDAR are not measures of performance under accounting principles generally accepted in the United States of America, or GAAP. We use adjusted EBITDA and adjusted EBITDAR as key performance indicators and adjusted EBITDA and adjusted EBITDAR expressed as a percentage of total revenues as a measurement of margin.

We understand that EBITDA and EBITDAR, or derivatives thereof, are customarily used by lenders, financial and credit analysts, and many investors as a performance measure in evaluating a company's ability to service debt and meet other payment obligations or as a common valuation measurement in the long-term care industry. Moreover, ALC's revolving credit facility contains covenants in which a form of EBITDA is used as a measure of compliance, and we anticipate a form of EBITDA will be used in covenants in any new financing arrangements that we may establish. We believe adjusted EBITDA and adjusted EBITDAR provide meaningful supplemental information regarding our core results because these measures exclude the effects of non-operating factors related to our capital assets, such as the historical cost of the assets.

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We report specific line items separately, and exclude them from adjusted EBITDA and adjusted EBITDAR because such items are transitional in nature, and would otherwise distort historical trends. In addition, we use adjusted EBITDA and adjusted EBITDAR to assess our operating performance and in making financing decisions. In particular, we use adjusted EBITDA and adjusted EBITDAR in analyzing potential acquisitions and internal expansion possibilities. Adjusted EBITDAR performance is also used in determining compensation levels for our senior executives. Adjusted EBITDA and adjusted EBITDAR should not be considered in isolation or as a substitute for net income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity. In this report, we present adjusted EBITDA and adjusted EBITDAR on a consistent basis from period to period, thereby allowing for comparability of operating performance.

Review of Key Performance Indicators

In order to compare our performance between periods, we assess the key performance indicators for all of our continuing residences. All “continuing operations” or “continuing residences” are defined as all residences excluding:

- residences classified in the financial statements as discontinued operations, and
- two freestanding residences and an additional 129 assisted living units contained in skilled nursing facilities that were retained by Extencare.

In addition, we assess the key performance indicators for residences that we operated in all reported periods, or “same residence” operations. Same residence operations are defined as all continuing operations excluding the Escanaba, MI acquisition in November 2006.

ADC

All Continuing Residences

The following table sets forth our average daily census (“ADC”) for the three month periods ended March 31, 2007 and 2006 for both private pay and Medicaid residents for all of the continuing residences whose results are reflected in our consolidated financial statements.

Average Daily Census

	<u>2007</u>	<u>2006</u>
Private pay	5,219	4,921
Medicaid	1,741	2,029
Total ADC	<u>6,960</u>	<u>6,950</u>
Private pay percentage	<u>81.4%</u>	<u>78.1%</u>

During the first quarter of 2007, total ADC increased 0.1% while private pay ADC increased 6.1% and Medicaid ADC decreased 14.2%. These changes are consistent with our strategy to increase the number of residents in our communities that are private pay, both by filling existing vacancies at our residences with private pay residents and by decreasing the number of units in our residences that are available for residents who rely on Medicaid.

Same Residence Basis

The following table is presented on a same residence basis, and therefore removes the impact of the Escanaba, MI acquisition in November 2006. The table sets forth our average daily census for the three month period ended March 31, 2007 and 2006 for both private and Medicaid payers for all of the assisted living residences on a same residence basis.

ASSISTED LIVING CONCEPTS, INC.**Average Daily Census**

	<u>2007</u>	<u>2006</u>
Private pay	5,179	4,921
Medicaid	1,741	2,029
Total ADC	<u>6,920</u>	<u>6,950</u>
Private pay percentage	<u>81.3%</u>	<u>78.1%</u>

In the first quarter of 2007, total ADC was relatively unchanged while private pay ADC increased 5.2% and Medicaid ADC decreased 14.2%. As mentioned above, this is consistent with our strategy to increase the number of private pay residents and decrease the number of units available to residents who rely on Medicaid.

Occupancy Percentage

Occupancy percentages are impacted by our completion and opening of new assisted living residences and additions to existing assisted living residences. As total capacity of newly completed additions or new residences increases, occupancy percentages are impacted as the assisted living residence is filling the additional units. After the completion of the construction, we generally plan for additional units to take anywhere from one to one and a half years to reach optimum occupancy levels (defined by us as at least 90%).

Due to the significant impact on occupancy rates that developmental residences have had on historical results, we have split occupancy information between mature and developmental residences. In general, developmental residences are defined as a residence that has undergone an expansion or a new residence that has opened. An assisted living residence identified as developmental is classified as such until it reaches 90% occupancy but in no case would it be classified as developmental for more than 12 months after completion of construction. As of March 31, 2007, we had 3 residences, totaling 153 units classified as developmental. All residences that are not developmental are considered mature residences.

All Continuing Residences

The following table sets forth our occupancy percentages for the three month periods ended March 31, 2007 and 2006 for all mature and developmental continuing residences whose results are reflected in our consolidated financial statements.

Occupancy Percentage

	<u>2007</u>	<u>2006</u>
Mature	<u>84.2%</u>	<u>85.5%</u>
Developmental	<u>54.6%</u>	<u>60.4%</u>
Total residences	<u>83.7%</u>	<u>84.2%</u>

For the three month period ended March 31, 2007, we saw a decline in mature residences occupancy percentage from 85.5% to 84.2% and in our developmental residences from 60.4% to 54.6%.

Occupancy percentages for all mature and developmental residences decreased from 84.2% to 83.7% in the same period.

The decline in our occupancy percentage for the three month period ended March 31, 2007 is primarily due to our decision to exit from a number of Medicaid contracts in several states.

Same Residence Basis

The following table sets forth the occupancy percentages outlined above on a same residence basis for the three month periods ended March 31.

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Occupancy Percentage

	<u>2007</u>	<u>2006</u>
Mature	84.1%	85.5%
Developmental	54.6%	75.3%
Total residences	83.6%	85.2%

For the three month period ended March 31, 2007, we saw a decline in mature residences occupancy percentage from 85.5% to 84.1%.

The decline in census during this time frame is attributable to our decision to exit from a number of Medicaid contracts in several states.

Average Revenue Rate by Payer Source*All Continuing Residences*

The following table sets forth our average daily revenue rates for the three month periods ended March 31, 2007 and 2006 for both private pay and Medicaid payers for all continuing residences whose results are reflected in our consolidated financial statements.

Average Daily Revenue Rate

	<u>2007</u>	<u>2006</u>
Private pay	\$ 99.18	\$ 96.83
Medicaid	\$ 67.98	\$ 65.70
Total	\$ 91.38	\$ 87.74

The average private pay revenue rate increased 2.4% in 2007 compared to 2006 and our Medicaid rates increased by 3.5% in the same period. The average daily private pay revenue rate increased primarily as a result of annual rate increases, partially offset by additional private pay residents occupying studio accommodations. Historically, Medicaid residents have occupied our lower rate studio accommodations. To the extent such accommodations became occupied by private pay residents, the average private pay rate decreases. In addition, over time, residents' acuity levels generally increase. Because we have a number of newer residents in the first quarter of 2007, acuity levels are lower in the three month period ended March 31, 2007 when compared to the same period in 2006.

Number of Residences Under Operation

The following table sets forth the number of residences under operation as of March 31.

	<u>2007</u>	<u>2006</u>
Owned	152	151
Under capital lease	5	5
Under operating leases	50	50
Total under operation	207	206
Percent of residences:		
Owned	73.4%	73.3%
Under capital leases	2.4	2.4
Under operating leases	24.2	24.3
	<u>100.0%</u>	<u>100.0%</u>

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ADJUSTED EBITDA and ADJUSTED EBITDAR

The following table sets forth a reconciliation of net income to adjusted EBITDA and adjusted EBITDAR as of March 31.

	<u>2007</u>	<u>2006</u>
	(In thousands)	
Net income	\$ 4,727	\$ 2,310
Loss from discontinued operations, net of taxes	—	1,168
Provision for income taxes	<u>2,898</u>	<u>2,189</u>
Income from continuing operations before income taxes	7,625	5,667
Add:		
Depreciation and amortization	4,181	4,123
Interest expense, net	1,215	2,830
Transaction costs	56	—
Non-cash equity based compensation	<u>6</u>	<u>278</u>
Adjusted EBITDA	13,083	12,898
Add: Residence Lease expense	<u>3,699</u>	<u>3,488</u>
Adjusted EBITDAR	<u>\$ 16,782</u>	<u>\$ 16,386</u>

The following table sets forth the calculations of adjusted EBITDA and adjusted EBITDAR percentages as of March 31.

	<u>2007</u>	<u>2006</u>
	(\$ In thousands)	
Revenues	<u>\$ 57,521</u>	<u>\$ 56,776</u>
Adjusted EBITDA	<u>\$ 13,083</u>	<u>\$ 12,898</u>
Adjusted EBITDAR	<u>\$ 16,782</u>	<u>\$ 16,386</u>
Adjusted EBITDA as percent of total revenue	<u>22.7%</u>	<u>22.7%</u>
Adjusted EBITDAR as percent of total revenue	<u>29.2%</u>	<u>28.9%</u>

Adjusted EBITDA, as a percentage of total revenues, was unchanged at 22.7%. The \$0.2 million increase in adjusted EBITDA resulted primarily from the growth in revenues (\$0.7 million) and reductions in residence operations expenses (\$0.2 million), partially offset by increased residence lease expense and general and administrative expense items (\$0.7 million after adjusting for non-cash equity compensation expense in the 2006 quarter of \$0.3 million). The \$0.2 million reduction in residence operations expenses resulted primarily from residences retained by Extendicare which were included only in the 2006 first quarter (\$1.1 million), partially offset by generally rising costs such as payroll, benefits and property related costs (\$0.9 million).

Adjusted EBITDAR, as a percentage of total revenues, increased to 29.2% in 2007 from 28.9% in 2006. Adjusted EBITDA margins in the first quarter of 2007 remained unchanged from the first quarter of 2006. Margin improvement resulting from improved private pay mix and rate increases in the first quarter of 2007 were offset by the increased general and administrative expenses.

Please see “— Business Overview — Key Performance Indicators — Adjusted EBITDA and Adjusted EBITDAR” above for a discussion of our use of adjusted EBITDA and adjusted EBITDAR and a description of the limitations of such use.

Consolidated Results from Operations**Three Months Ended March 31, 2007 Compared with Three Months Ended March 31, 2006**

The following table sets forth details of our revenues and income as a percentage of total revenues for the three month periods ended March 31.

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	<u>2007</u>	<u>2006</u>
Revenues	100.0%	100.0%
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	65.6	66.8
General and administrative	5.2	4.8
Residence lease expense	6.5	6.1
Depreciation and amortization	7.3	7.3
Transaction costs	0.1	—
Impairment of long-lived asset	—	—
Income from operations	15.3	15.0
Interest expense, net	(2.1)	(5.0)
Income tax expense	(5.0)	(3.9)
Net income from continuing operations	8.2	6.1
Loss from discontinued operations, net of tax	—	(2.0)
Net income	<u>8.2%</u>	<u>4.1%</u>

Revenues

Revenues in the three month period ended March 31, 2007 increased \$0.7 million, or 1.3%, to \$57.5 million from \$56.8 million in the three month period ended March 31, 2006. Revenues increased approximately \$2.6 million due to higher private pay occupancy, \$1.5 million due to rate increases, and \$0.2 million due to revenue from the current tenant of ALC's recently purchased corporate office. These increases were partially offset by a decrease in our average daily Medicaid census of \$1.7 million, \$1.4 million in revenues associated with the properties retained by Extencicare that were included only in the 2006 period, and \$0.4 million in revenues associated with the amortization of below market leases from Extencicare's 2005 acquisition of ALC which ended in January 2007.

Residence Operations (exclusive of depreciation and amortization and residence lease expense shown below)

Residence operating costs decreased \$0.2 million, or 0.4%, in the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006. Operating costs decreased \$1.1 million as a result of certain properties being retained by Extencicare that were included only in the 2006 period partially offset by inflationary factors of \$0.9 million.

General and Administrative

General and administrative costs increased \$0.2 million, or 8.6%, in the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006. General and administrative costs increased \$1.0 million from increases in salaries and benefits, new public company costs, increased accounting related services, and other items related to ALC operating separately from Extencicare for the first quarter of 2007. These increases were partially offset by a \$0.3 million reduction in charges from VCPI and Extencicare, a \$0.2 million reduction in bonus expense, and \$0.3 million of non-cash equity compensation recorded in the 2006 period.

Residence Lease Expense

Residence lease expense increased \$0.2 million to \$3.7 million in the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006. This increase is a result of normal contractual increases in our lease agreements.

Depreciation and Amortization

Depreciation and amortization increased \$0.1 million to \$4.2 million in the three month period ended March 31, 2007 compared to \$4.1 million in the three month period ended March 31, 2006. The increase resulted from the acquisition of a residence in Escanaba, Michigan, and the purchase of a new corporate office building in August 2006 and was offset by the depreciation on two freestanding residences that were retained by Extencicare upon the Separation.

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Transaction Costs

Transaction costs related to our Separation from Extencicare amounted to approximately \$0.1 million in the three month period ended March 31, 2007. No costs related to the Separation were incurred in the three month period ended March 31, 2006.

Income from Operations

Income from operations before income taxes for the three month period ended March 31, 2007 was \$8.8 million compared to \$8.5 million for the three month period ended March 31, 2006 due to the reasons described above.

Interest Expense, Net

Interest expense, net of interest income, decreased \$1.6 million to \$1.2 million in the three month period ended March 31, 2007 compared to the three month period ended March 31, 2006. The three month period ended March 31, 2006 included \$1.3 million of interest expense allocated to or charged to ALC by Extencicare on intercompany debt. This debt was either paid off or forgiven in connection with the Separation. The remaining decrease of \$0.3 million is a result of higher interest income partially offset by financing fees on the \$100 million revolving credit facility.

Income from Continuing Operations before Income Taxes

Income from continuing operations before income taxes for the three month period ended March 31, 2007 was \$4.7 million compared to \$3.5 million for the three month period ended March 31, 2006 due to the reasons described above.

Income Tax Expense

Income tax expense for the three month period ended March 31, 2007 was \$2.9 million compared to \$2.2 million for the three month period ended March 31, 2006. Our effective tax rate was 38.0% for the three month period ended March 31, 2007 compared to 38.6% for the three month period ended March 31, 2006. The effective tax rate decrease was primarily due to the stepped up tax basis of assets purchased from Extencicare in connection with the Separation.

Net Income from Continuing Operations

Net income from continuing operations for the three month period ended March 31, 2007 was \$4.7 million compared to \$3.5 million for the three month period ended March 31, 2006 due to the reasons described above.

Loss from Discontinued Operations, net of tax

There was no loss from discontinued operations in the three month period ended March 31, 2007 as all discontinued operations had either ceased or did not transfer to ALC upon the Separation. The loss from discontinued operations, net of tax, was \$1.2 million in the three month period ended March 31, 2006.

Net Income

Net income for the three month period ended March 31, 2007 was \$4.7 million compared to \$2.3 million for the three month period ended March 31, 2006 due to the reasons described above.

Related Party Transactions

Transactions with Extencicare and its Affiliates

Prior to the Separation, we insured certain risks with Laurier Indemnity Company, Ltd. ("Laurier"), an affiliated insurance subsidiary of Extencicare and third party insurers. The consolidated statement of income for the three month period ended March 31, 2006 includes intercompany insurance premium expenses of \$0.2 million. After the Separation Date, we discontinued paying premiums to Laurier and began coverage with Pearson.

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Prior to the Separation, we also purchased computer hardware and software support services from VCPI. The cost of services was based on agreed upon rates that, we believe, approximated market rates, and was \$0.5 million for the three month period ended March 31, 2006. In addition, we purchased payroll and benefits, financial management and reporting, legal, human resources and reimbursement services from EHSI. The cost was based upon actual incremental costs of the services provided and was \$0.2 million in the three month period ended March 31, 2006. We continue to contract with Extencicare to provide certain of these support services at rates we believe approximate market rates.

Prior to the Separation, EHSI's U.S. parent company, EHI, was responsible for all U.S. federal tax return filings and therefore we incurred charges (payments) from (to) EHI for income taxes. Accordingly, we had balances due to EHSI, who in turn had balances due to EHI. Advances made and outstanding in respect of federal tax payments and other sundry working capital advances were non-interest bearing. In connection with the Separation, or shortly thereafter, all balances due to EHI related to U.S. federal tax return filings were settled and therefore no balances remained at March 31, 2007.

Liquidity and Capital Resources

Sources and Uses of Cash

We had cash and cash equivalents of \$28.4 million at March 31, 2007 compared to \$20.0 million at March 31, 2006. The table below sets forth a summary of the significant sources and uses of cash for the three month periods ended March 31.

	<u>2007</u>	<u>2006</u>
	(In thousands)	
Cash provided by operating activities	\$ 12,912	\$ 12,151
Cash used in investing activities	(3,979)	(2,196)
Cash used in financing activities	(488)	(7,051)
Increase in cash and cash equivalents	<u>\$ 8,445</u>	<u>\$ 2,904</u>

Cash flow from operating activities was \$12.9 million in the three months ended March 31, 2007 compared to \$12.2 million in the three months ended March 31, 2006.

Our working capital increased \$5.5 million in the three months ended March 31, 2007 compared to December 31, 2006, primarily from an \$8.4 million increase in cash, partially offset by a \$2.0 million increase in taxes payable and a \$1.0 decrease in other current assets.

Property and equipment increased \$0.3 million in the three months ended March 31, 2007 compared to December 31, 2006. Property and equipment increased \$4.0 million from capital expenditures and decreased by \$3.6 million from depreciation expense.

Total debt, including both current and long-term, was \$90.0 million as of March 31, 2007 compared to \$90.6 million at December 31, 2006. The change in debt was the result of principal payments of \$0.5 million and amortization of a market value adjustment of \$0.1 million.

Cash used in investing activities was \$4.0 million for the three months ended March 31, 2007 compared to \$2.2 million in the three months ended March 31, 2006. Payments for new construction projects were \$1.2 million for the three months ended March 31, 2007 compared to \$0.8 million for the three months ended March 31, 2006.

Cash used in financing activities was \$0.5 million for the three months ended March 31, 2007 compared to cash used by financing activities of \$7.1 million in the three months ended March 31, 2006. The prior year period included a \$6.5 million payment on an interest bearing advance from Extencicare.

\$100 Million Credit Facility

On November 10, 2006, ALC entered into a five year, \$100 million revolving credit agreement with General Electric Capital Corporation and other lenders. The facility is guaranteed by certain ALC subsidiaries that own approximately 64 of the residences in our portfolio and secured by a lien against substantially all of the assets of ACL and such subsidiaries. Interest rates applicable to funds borrowed under the facility are based, at ALC's option, on either a base rate essentially equal to the

ASSISTED LIVING CONCEPTS, INC.

prime rate or LIBOR plus an amount that varies according to a pricing grid based on a consolidate leverage test. At March 31, 2007 this amount was 150 basis points. Under certain conditions, ALC may request a \$50 million increase in the facility.

There were no borrowings under the facility in 2006 or during the three month period ended March 31, 2007, and as of March 31, 2007, ALC was in compliance with all covenants and available borrowings under the facility were \$100 million.

Debt Instruments

There were no material changes in our debt obligations from December 31, 2006 to March 31, 2007 and, as of the date of this report ALC was in compliance with all financial covenants in its debt agreements.

Principal Repayment Schedule

There were no material changes in our monthly debt service payments from December 31, 2006 to March 31, 2007.

Letters of credit

As of March 31, 2007, ALC had \$8.2 million in outstanding letters of credit, all of which was secured by cash. Pearson maintains a \$5.0 million letter of credit in favor of a third party professional liability insurer. Approximately \$2.2 million of the letters of credit deposits are security for worker's compensation insurance and \$1.0 million of the cash deposits are security for landlords of leased properties. All the letters of credit are renewed annually and have maturity dates ranging from May 2007 to January 2008. During the quarter ended March 31, 2007, \$1.2 million of outstanding letters of credit were reduced as a result of a workers compensation liability valuation.

Restricted Cash

As of March 31, 2007, restricted cash consists of \$8.2 million of cash deposits securing letters of credit, \$1.4 million of cash deposits as security for Oregon Trust Deed Notes, and \$0.1 million as security for HUD Insured Mortgages due 2036. During the quarter ended March 31, 2007, the restriction on \$1.2 million of cash was released as a result of a \$1.2 million reduction in outstanding letters of credit as explained above.

Off Balance Sheet Arrangements

ALC has no off balance sheet arrangements.

Cash Management

As of March 31, 2007, we held unrestricted cash and cash equivalents of \$28.4 million. The Company monitors daily incoming cash flows and outgoing expenditures to ensure available cash is invested on a daily basis.

Future Liquidity and Capital Resources

The Company believes that our cash from operations, together with other available sources of liquidity, including borrowings available under our \$100 million revolving credit facility, will be sufficient for the next 12 months and beyond to fund operations, expansion plans, acquisitions, our share buyback program, anticipated capital expenditures, and required payments of principal and interest on our debt.

Capital Commitments

As of March 31, 2007, we had two construction projects in progress that will increase operational capacity at two assisted living residences by 46 units. Total costs incurred through March 31, 2007 on these projects were approximately \$4.2 million and purchase commitments of \$1.6 million were outstanding. The total estimated cost of the uncompleted projects is approximately \$5.7 million. As of March 31, 2007, we had other capital expenditure purchase commitments outstanding of approximately \$1.1 million.

ASSISTED LIVING CONCEPTS, INC.

Expansion Plans

On February 27, 2007 we announced plans to add 20 additional units onto 20 of our existing owned residences for a total of 400 units. The 2007 expansion project began in March 2007 and is expected to take approximately 12 months to complete construction and an additional 12 months to stabilize occupancy (as well as cash flow at the expanded residences). We expect our cost to be approximately \$125,000 per additional unit or a total cost of \$50 million.

Share Buyback

On December 13, 2006 our Board of Directors authorized a share buyback program that enables us to repurchase up to \$20 million of our Class A Common Stock over twelve months. We may repurchase shares in the open market or in privately negotiated transactions from time to time in accordance with appropriate SEC guidelines and regulations and subject to market conditions, applicable legal requirements, and other factors. As of March 31, 2007 the Company had not purchased any shares under the share buyback program.

Accrual for Self-Insured Liabilities

At March 31, 2007, the Company had an accrued liability for settlement of self-insured liabilities of \$1.5 million in respect of general and professional liability claims. There were no claim payments made in the three months ended March 31, 2007. The Company paid \$0.1 million in claims for the first quarter of 2006. The accrual for self-insured liabilities includes estimates of the cost of both reported claims and claims incurred but not yet reported. We estimate that \$0.3 million of the total \$1.5 million liability will be paid within the next twelve months. The timing of payments is not directly within our control, and, therefore, estimates are subject to change in the future. The Company believes we have provided sufficient provisions for incurred general and professional liability claims as of March 31, 2007.

At March 31, 2007 the Company had an accrual for workers compensation claims of \$3.9 million. Claim payments for the three months ended March 2007 and 2006 were \$0.4 million and \$1.0 million, respectively. The timing of payments is not directly within our control, and, therefore, estimates are subject to change in the future. The Company believes it has provided sufficient provisions for workers compensation claims as of March 31, 2007.

Contractual Obligations

There were no material changes in our contractual obligations outside of the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with GAAP. For a full discussion of our accounting policies as required by GAAP, refer to our Annual Report on Form 10-K, for the year ended December 31, 2006. We consider certain accounting policies to be critical to an understanding of our consolidated financial statements because their application requires significant judgment and reliance on estimations of matters that are inherently uncertain. The specific risks related to these critical accounting policies are unchanged at the date of this report and are described in detail in our Annual Report on Form 10-K.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative Disclosures

At March 31, 2007 and December 31, 2006, our long-term debt consisted of fixed-rate debt of \$90.0 million and \$90.6 million, respectively.

We have no derivative instruments. We do not speculate using derivative instruments and do not engage in derivative trading of any kind.

Quantitative Disclosures

There were no material changes in the principal, or notional, amounts and related weighted average interest rates by year of maturity for our debt obligations as of March 31, 2007.

Item 4. CONTROLS AND PROCEDURES

Not applicable. See Item 4T below.

Item 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. ALC's management, with the participation of ALC's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of ALC's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. ALC's disclosure controls and procedures are designed to ensure that information required to be disclosed by ALC in the reports it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and (2) accumulated and communicated to ALC's management, including its Chief Executive Officer, to allow timely decisions regarding required disclosure. Based on such evaluation, ALC's management, including its Chief Executive Officer and Chief Financial Officer, have concluded that, as of the end of such period, ALC's disclosure controls and procedures are effective.

Internal Control Over Financial Reporting. There have not been any changes in ALC's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, ALC's internal control over financial reporting.

Part II. OTHER INFORMATION**Item 1A. RISK FACTORS.**

There are no material changes to the disclosure regarding risk factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's Annual Meeting of Stockholders was held on May 3, 2007 ("Annual Meeting"). At the Annual Meeting, the only matter submitted for a vote was a proposal to elect nine directors to serve as directors until the 2008 Annual Meeting of Stockholders and until their respective successors are elected and qualified.

A total of 40,202,391 shares of Class A Common Stock and 7,604,148 shares of Class B Common Stock were represented at the meeting in person or by proxy. Each share of Class A Common Stock was entitled to one vote and each share of Class B Common Stock was entitled to ten votes. A total of 116,243,871 votes were represented at the meeting. As of the record date for the meeting, there were 59,932,427 shares outstanding of Class A Common Stock and 9,564,922 shares outstanding of Class B Common Stock.

The results of the vote are as follows:

<u>Name</u>	<u>For</u>	<u>Withheld</u>
Laurie A. Bebo	116,236,121	7,750
Alan Bell	110,010,951	6,232,920
Jesse C. Brotz	116,040,977	202,894
Derek H.L. Buntain	115,656,240	587,631
David J. Hennigar	109,648,459	6,595,412
Malen S. Ng	116,231,188	12,683
Melvin A. Rhineland	116,041,879	201,292
Charles H. Roadman II, MD	116,232,288	11,583
Michael J. Spector	116,235,919	7,952

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Item 5. OTHER INFORMATION.

Forward-Looking Statements and Cautionary Factors

This report and other documents or oral statements we make or made on our behalf contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are predictions and generally can be identified by use of statements that include phrases such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” or other words or phrases of similar import. Forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated. In addition to any factors that may accompany forward-looking statements, factors that could materially affect actual results include the following.

Factors and uncertainties facing our industry and us include:

- national, regional and local competition which could cause us to lose market share and revenue;
- markets where overbuilding exists and future overbuilding in other markets where we operate our residences may adversely affect our operations;
- our ability to cultivate new or maintain existing relationships with physicians and others in the communities in which we operate could affect occupancy rates;
- events which adversely affect the ability of seniors to afford our monthly resident fees could cause our occupancy rates, revenues and results of operations to decline;
- changes in the percentage of our residents that are private residents may affect our profitability;
- reductions in Medicaid rates could decrease our revenues;
- termination of our resident agreements and vacancies in the living spaces we lease could adversely affect our revenues, earnings and occupancy levels;
- increases in labor costs, as a result of a shortage of qualified personnel or otherwise, could increase operating costs;
- personal injury claims, if successfully made against us, could materially and adversely affect our financial condition and results of operations;
- failure to comply with laws and government regulation could lead to fines and penalties;
- compliance with regulations may require us to make unanticipated expenditures which could increase our costs and therefore adversely affect our earnings and financial condition;
- audits and investigations under contracts with federal and state government agencies could have adverse findings that impact our business;
- failure to comply with environmental laws, including laws regarding the management of infectious medical waste, could materially and adversely affect our financial condition and results of operations;
- failure to comply with laws governing the transmission and privacy of health information could materially and adversely affect our financial condition and results of operations;
- efforts to regulate the construction or expansion of healthcare providers could impair our ability to expand through construction and redevelopment;
- we may make acquisitions that could subject us to a number of operating risks; and
- costs associated with capital improvements could adversely affect our profitability.

Factors and uncertainties related to our indebtedness and lease arrangements include:

- loan covenants could restrict our operations and defaults could result in the acceleration of indebtedness or cross-defaults, any of which would negatively impact our liquidity and inhibit our ability to grow our business and increase revenues;
- if we do not comply with the requirements in leases or debt agreements pertaining to revenue bonds, we would be subject to financial penalties;
- our indebtedness and long-term leases could adversely affect our liquidity, our ability to operate our business, and our ability to execute our growth strategy; and
- increases in market interest rates could significantly increase the costs of our unhedged debt and lease obligations, which could adversely affect our liquidity and earnings.

Additional risk factors are discussed under the “Risk Factors” section in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission and available through the Investor Relations section of our website, www.alcco.com.

Item 6. EXHIBITS.

See the Exhibit Index included as the last part of this report (following the signature page), which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ASSISTED LIVING CONCEPTS, INC.

By: /s/ John Buono
John Buono
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Duly Authorized
Officer)

Date: May 11, 2007

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ASSISTED LIVING CONCEPTS, INC.
EXHIBIT INDEX TO MARCH 31, 2007 QUARTERLY REPORT ON FORM 10-Q

Exhibit Number	Description
10.1	Form of 2007 Cash Incentive Compensation Award Agreement as amended May 3, 2007.
10.2	Form of Tandem Stock Option/Stock Appreciation Rights Award Agreement as amended May 3, 2007.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or Rule 15d- 14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or Rule 15d- 14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ASSISTED LIVING CONCEPTS, INC.

2007 CASH INCENTIVE COMPENSATION AWARD AGREEMENT

THIS CASH INCENTIVE COMPENSATION AWARD AGREEMENT (the “**Award Agreement**”) is entered into as of March 30, 2007, between Assisted Living Concepts, Inc. (“**ALC**”) and (“**Employee**”). In consideration of the mutual promises and covenants made in this Agreement and the mutual benefits to be derived from this Agreement, ALC and Employee agree as follows.

This Award Agreement sets forth the terms and conditions of a cash incentive award of performance compensation (the “**Award**”) that is granted to you under the 2006 Omnibus Incentive Compensation Plan (the “**Plan**”) and is a Performance Compensation Award. This Award provides you with the opportunity to earn, subject to the terms of this Award Agreement, cash compensation as set forth in Section 3 below.

THIS AWARD IS SUBJECT TO ALL TERMS AND CONDITIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE DISPUTE RESOLUTION PROVISIONS SET FORTH IN SECTION 9 OF THIS AWARD AGREEMENT. BY SIGNING YOUR NAME BELOW, YOU WILL HAVE CONFIRMED YOUR ACCEPTANCE OF THE TERMS AND CONDITIONS OF THIS AWARD AGREEMENT.

1. The Plan. This Award is made pursuant to the Plan, all the terms of which are hereby incorporated in this Award Agreement. In the event of any conflict between the terms of the Plan and the terms of this Award Agreement, the terms of this Award Agreement shall govern. In the event of any conflict between the terms of this Award Agreement and the terms of any individual employment agreement between you and ALC or any of its Affiliates (an “**Employment Agreement**”), the terms of your Employment Agreement will govern.

2. Definitions. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement have the meanings as used or defined in the Plan. As used in this Award Agreement, the following terms have the meanings set forth below:

“**Business Day**” means a day that is not a Saturday, a Sunday or a day on which banking institutions are legally permitted to be closed in the City of New York.

“**Committee**” means the Compensation/ Nominating/ Governance committee of the Board of Directors of ALC (the “**Board**”) or such other committee of the Board as may be designated by the Board from time to time to administer the Plan.

“**Determination Date**” means the date during the first quarter of 2008, as determined by the Committee, on which the Committee determines whether Performance Goals with respect to the Performance Period have been achieved.

“**Performance Goals**” means the performance goals set forth on Exhibit A to this Award Agreement.

“**Performance Period**” means the period from January 1, 2007 through December 31, 2007.

3. (a) Performance-Based Right to Payment. The amount of cash compensation payable pursuant to the Award shall be determined based on the achievement of the Performance Goals. On the Determination Date, the Committee in its sole discretion shall determine whether you are entitled to payment with respect to all or a portion of your Award subject to this Award Agreement. Except as otherwise provided in your Employment Agreement, the payment of cash compensation with respect to your Award is contingent on the attainment of the Performance Goals. Accordingly, unless otherwise provided in your Employment Agreement, you will not become entitled to payment with respect to the Award subject to this Award Agreement on the Determination Date unless the Committee determines that the Performance Goals with respect to the Determination Date have been attained. Upon such determination by the Committee and subject to the provisions of the Plan and this Award Agreement, you shall have the right to payment of the cash compensation as set forth on Exhibit A. Pursuant to Section 4 and except as otherwise provided in your Employment Agreement, in order to be entitled to payment with respect to any Award on the Determination Date, you must be employed by ALC or an Affiliate on the Determination Date.

(b) Payment of Award. Payments made pursuant to this Award Agreement shall be payable in cash as soon as administratively practicable following the Determination Date. The Committee and ALC shall use commercially reasonable efforts to make such payments by March 15, 2008.

4. (a) Forfeiture of Award. Unless the Committee determines otherwise, and except as otherwise provided in your Employment Agreement, if your rights with respect to any Award awarded to you pursuant to this Award Agreement have not become payable prior to the date on which your employment with ALC and its Affiliates terminates, your rights with respect to such Award shall immediately terminate, and you will be entitled to no further payments or benefits with respect thereto. If pursuant to Section 3 the Committee determines in its sole discretion that the Performance Goals with respect to the Determination Date have not been attained, your rights with respect to such Award shall immediately terminate, and you will be entitled to no further payments or benefits with respect thereto.

(b) Recovery of Award Following Restatement. If ALC's financial statements are the subject of a restatement due to error or misconduct, to the extent permitted by governing law, in all appropriate cases, Employee shall on demand from ALC repay all excess incentive cash compensation paid under this Award Agreement. For purposes of this Award Agreement, excess incentive cash compensation means the positive difference, if any, between (i) the Award made to Employee and (ii) the Award that would have been made to Employee had the Award been calculated based on ALC's financial statements as restated. ALC will not be required to award Employee an additional Award should the restated financial statements result in a higher calculated Award. The repayment of excess incentive cash compensation is in addition to and separate from any other relief available to ALC due to the Employee's error or misconduct

5. Non-Transferability of Award. Unless otherwise provided by the Committee in its discretion, the Award may not be sold, assigned, alienated, transferred, pledged, attached or otherwise encumbered except as provided in Section 9(a) of the Plan. Any purported sale, assignment, alienation, transfer, pledge, attachment or other encumbrance of a Performance Award in violation of the provisions of this Section 5 and Section 9(a) of the Plan shall be void.

6. Withholding. The payment of cash compensation pursuant to Section 3(b) is conditioned on satisfaction of any applicable withholding taxes in accordance with Section 9(d) of the Plan.

7. Successors and Assigns of ALC. The terms and conditions of this Award Agreement shall be binding upon and shall inure to the benefit of ALC and its successors and assigns.

8. Committee Discretion. Subject to your Employment Agreement, the Committee shall have full and plenary discretion with respect to any actions to be taken or determinations to be made in connection with this Award Agreement, and its determinations shall be final, binding and conclusive.

9. Dispute Resolution.

(a) Jurisdiction and Venue. Notwithstanding any provision in your Employment Agreement, you and ALC irrevocably submit to the exclusive jurisdiction of (i) the United States District Court for the Eastern District of Wisconsin and (ii) the courts of the State of Wisconsin for the purposes of any suit, action or other proceeding arising out of this Award Agreement or the Plan. You and ALC agree to commence any such action, suit or proceeding either in the United States District Court for the Eastern District of Wisconsin or, if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the courts of the State of Wisconsin. You and ALC further agree that service of any process, summons, notice or document by U.S. registered mail to the other party's address set forth below shall be effective service of process for any action, suit or proceeding in Wisconsin with respect to any matters to which you have submitted to jurisdiction in this Section 9a. You and ALC irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Award Agreement or the Plan in (A) the United States District Court for the Eastern District of Wisconsin or (B) the courts of the State of Wisconsin, and hereby and thereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) Waiver of Jury Trial. You and ALC hereby waive, to the fullest extent permitted by applicable law, any right either of you may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Award Agreement or the Plan.

(c) Confidentiality. You hereby agree to keep confidential the existence of, and any information concerning, a dispute described in this Section 9, except that you may disclose information concerning such dispute to the court that is considering such dispute or to your legal counsel or other advisors (provided that such counsel or other advisors agree not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

10.Notice. All notices, requests, demands and other communications required or permitted to be given under the terms of this Award Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three Business Days after they have been mailed by U.S. registered mail, return receipt requested, postage prepaid, addressed to the other party as set forth below:

If to ALC:

Assisted Living Concepts, Inc.
111 East Michigan Street
Milwaukee, WI 53203
Attn: Corporate Secretary

If to you:

The parties may change the address to which notices under this Award Agreement shall be sent by providing written notice to the other in the manner specified above.

11.Headings. Headings are given to the Sections and subsections of this Award Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Award Agreement or any provision thereof.

12.Amendment of this Award Agreement. The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate this Award Agreement prospectively or retroactively; provided, however, that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would materially and adversely impair your rights under this Award Agreement shall not to that extent be effective without your consent.

13.Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have duly executed this Award Agreement as of the date first written above.

ASSISTED LIVING CONCEPTS, INC.
TANDEM STOCK OPTION/STOCK APPRECIATION RIGHTS AWARD AGREEMENT

Employee:
Number of Stock Options/SARs:
Grant Date: **March 30, 2007**
Exercise Price: **\$ 11.80**

This Tandem Stock Option/Stock Appreciation Rights Award Agreement (the "**Award Agreement**") is entered into as of March 30, 2007, between Assisted Living Concepts, Inc. ("**ALC**") and Employee. In consideration of the mutual promises and covenants made in this Award Agreement and the mutual benefits to be derived from this Award Agreement, ALC and the Employee agree as follows:

THIS AWARD IS SUBJECT TO ALL TERMS AND CONDITIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE DISPUTE RESOLUTION PROVISIONS SET FORTH IN SECTION 17 OF THIS AWARD AGREEMENT. BY SIGNING YOUR NAME BELOW, YOU WILL HAVE CONFIRMED YOUR ACCEPTANCE OF THE TERMS AND CONDITIONS OF THIS AWARD AGREEMENT.

1. Definitions. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement have the meanings as used or defined in the Assisted Living Concepts, Inc. 2006 Omnibus Incentive Compensation Plan (the "**Plan**") and is intended to be performance compensation under Section 162(m) of the Internal Revenue Code. As used in this Award Agreement, the following terms have the meanings set forth below:

"**Board**" means the Board of Directors of ALC.

"**Business Day**" means a day that is not a Saturday, a Sunday or a day on which banking institutions are legally permitted to be closed in the City of New York.

"**Committee**" means the Compensation/ Nominating/Governance Committee of the Board, or such other committee of the Board as may be designated by the Board from time to time to administer the Plan.

"**Common Stock**" means Class A common stock of ALC, par value \$0.01 per share.

"**Determination Date**" means the date during the first quarter of 2008, as determined by the Committee, on which the Committee determines whether Performance Goals with respect to the Performance Period have been achieved.

"**Fair Market Value**" means the closing market price per Share as reported on the New York Stock Exchange (or other relevant exchange) on the applicable date or, in the event there shall be no public market for the Shares on the applicable date, the fair market value of the Shares as determined in good faith by the Committee.

"**Performance Period**" means the period from January 1, 2007 through December 31, 2007.

"**Share**" means a share of Common Stock.

2. Grant of Award. This Award Agreement sets forth the terms and conditions of an award (the "**Award**") under the Plan to the Employee as of the Grant Date of:

a. Stock Options. The right and option (the "**Stock Options**") to purchase up to Shares at the Exercise Price per Share, the Fair Market Value on the date hereof. Each Stock Option is a Nonqualified Stock Option. Unless earlier terminated pursuant to the terms of this Award Agreement, the Stock Options shall expire on the fifth anniversary of the Grant Date.

b. Stock Appreciation Rights. Each Stock Option includes a stock appreciation right ("**SAR**") at the price per Share equal to the Exercise Price. The SAR constitutes an unfunded and unsecured promise of ALC to deliver (or cause to be delivered) to Employee a whole number of Shares, cash or a combination of Shares and Cash at the time such SAR vests and is exercised, as provided herein, equal in value to the excess, if any, of the Fair Market Value per Share over the Exercise Price per Share of the SAR. Fractional shares will not be delivered and the number of Shares to be delivered upon any exercise by you of SARs subject to this Award shall be rounded down to the nearest whole Share. The Committee has sole discretion to deliver such value in Shares, cash, or a combination of Shares and cash. Until such delivery, Employee has only the rights of a general unsecured creditor and no rights as a stockholder of ALC. Unless earlier terminated pursuant to the terms of this Award Agreement, the SARs shall expire on the fifth anniversary of the Grant Date.

c. Tandem Stock Option/Stock Appreciation Rights. An SAR with respect to a Share shall vest, become exercisable, and terminate at the same times and under the same terms as the Stock Option such Share is subject to. The exercise of a Stock Option with respect to any Share shall cause the related SAR to automatically terminate and the exercise of an SAR with respect to any Share shall cause the related Stock Option to automatically terminate. Only one Stock Option or one SAR, and not both, may be exercised with respect to any Share that is subject to a Stock Option under this Award Agreement. The tandem Stock Option and SAR rights with respect to a Share are referred to in this Award Agreement as the “**Stock Option/SAR**.”

d. Award Subject to Performance-Based Vesting. Except as otherwise provided in any individual employment agreement between you and ALC or any of its Affiliates (an “**Employment Agreement**”), the vesting of your rights with respect to Stock Options/SARs is contingent on the attainment of performance goals set forth on Exhibit A to this Award Agreement (the “**Performance Goals**”). Accordingly, unless otherwise provided in your Employment Agreement, your rights with respect to Stock Options/SARs subject to this Award Agreement will not become vested on the Determination Date unless the Committee determines that the Performance Goals with respect to the Performance Period have been attained. Furthermore, pursuant to Section 14 and except as otherwise provided in your Employment Agreement, in order for your rights with respect to any Stock Option or SAR to become vested on the Determination Date, you must be employed by ALC or an Affiliate on the Determination Date. If, on the Determination Date, the Committee determines in its sole discretion that your rights with respect to any Stock Options/SARs under this Award Agreement remain unvested, your rights with respect to such Stock Options/SARs shall immediately terminate, and you will be entitled to no further payments or benefits with respect thereto.

e. Number of Vested Stock Options/SARs Dependent Upon Level of Performance. If the Committee determines that the threshold level Performance Goal specified in Exhibit A has been attained for the Performance Period, the Committee will then determine the whole number of Stock Options/SARs that vest on the Determination Date, up to the maximum number listed on the first page of this Award Agreement, using the formula set forth in Exhibit A.

f. Exercisability Subject to Time Vesting. Unless earlier terminated, any Stock Options/SARs that the Committee determines to be vested as of the Determination Date shall become exercisable as follows: one-third of the Shares covered thereby (rounded up to the next whole Share) on March 30, 2008, an additional one-third of such Shares (rounded up to the next whole Share) on March 30, 2009, and the remainder of such Shares on March 30, 2010, subject in each case to the prior termination of the Stock Option/SAR.

g. Exercisability Upon Death, Disability or Change of Control. Notwithstanding the foregoing, the Stock Options/SARs, to the extent outstanding, shall become immediately vested and fully exercisable upon (a) a Change of Control or (b) a Termination of Employment due to death or Disability. For purposes of this Award Agreement, **Disability** means (1) “Disability” as defined in your Employment Agreement, or (2) if there is no such employment or similar agreement or it does not define “Disability,” permanent and total disability as determined under ALC’s long-term disability plan applicable to Employee. For purposes of this Award Agreement, **Termination of Employment** means the termination of Employee’s employment with, or performance of services for, ALC and any of its Subsidiaries or Affiliates. A participant employed by, or performing services for, a Subsidiary or an Affiliate shall also be deemed to incur a Termination of Employment if the Subsidiary or Affiliate ceases to be such a Subsidiary or an Affiliate, as the case may be, and the participant does not immediately thereafter become an employee of, or service-provider for, ALC or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among ALC and its Subsidiaries and Affiliates shall not be considered Terminations of Employment.

(h) Suspension or Termination of Stock Options/SARs. If at any time (including after a notice of exercise has been delivered) the Committee, including any administrator authorized pursuant to Section 3(e) of the Plan (any such person, an “Authorized Officer”), reasonably believes that Employee has committed an act of misconduct as described in this Section, the Committee or Authorized Officer may suspend the Employee’s right to exercise any Stock Option/SAR pending a determination of whether an act of misconduct has been committed. If the Committee or an Authorized Officer determines Employee has committed an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to ALC, breach of fiduciary duty or deliberate disregard of ALC rules resulting in loss, damage or injury to ALC, or if Employee makes an unauthorized disclosure of any ALC trade secret or confidential information, engages in any conduct constituting unfair competition, or induces a customer to breach a contract with ALC, neither Employee nor his or her estate shall be entitled to exercise any Stock Option/SAR whatsoever. In addition, if Employee is designated an “executive officer” by the Board and if the Committee determines that Employee engaged in an act of embezzlement, fraud or breach of fiduciary duty during Employee’s employment that contributed to an obligation to restate ALC’s financial statements (“Contributing Misconduct”), Employee shall be required to repay ALC, in cash and upon demand, the Option Proceeds (as defined below) resulting from the sale or other disposition (including to ALC) of Shares issued or issuable upon exercise of a Stock Option or SAR if the sale or disposition was effected during the twelve-month period following the first public issuance or filing with the Securities and Exchange Commission of the financial statements required to be restated. The term “Option Proceeds” means,

with respect to any sale or other disposition (including to ALC) of Shares issued or issuable upon exercise of a Stock Option or SAR, an amount determined appropriate by the Committee to reflect the effect of the restatement on ALC's stock price, up to the amount equal to the number of Shares sold or disposed of multiplied by the difference between the market value per Share at the time of such sale or disposition and the exercise price. The return of Option Proceeds is in addition to and separate from any other relief available to ALC due to the executive officer's Contributing Misconduct. Any determination by the Committee with respect to the foregoing shall be final, conclusive and binding on all interested parties.

3. The Plan. This Award is made pursuant to the Plan, all the terms of which are hereby incorporated in this Award Agreement. In the event of any conflict between the terms of the Plan and the terms of this Award Agreement, the terms of this Award Agreement shall govern; provided, however, that, notwithstanding the foregoing, it is understood that the provisions of Section 6(i)(vi)(D) of the Plan, including but not limited to the concept of "negative discretion" shall not be applicable to the Stock Options/SARs. In the event of any conflict between the terms of this Award Agreement and the terms of any Employment Agreement, the terms of your Employment Agreement will govern.

4. Exercise of the Stock Options.

a. Stock Options as to which the Employee is vested, which have become exercisable, and which have not terminated may be exercised by delivery to the Secretary of ALC of a written or electronic notice, complying with the applicable procedures established by the Committee or ALC, stating the number of whole Shares to be purchased pursuant to this Award Agreement and the date on which the Employee wants to exercise the Stock Option and accompanied by payment of the full purchase price of the Shares to be purchased.

b. The full purchase price of the Stock Option (the Exercise Price multiplied by the number of Stock Options exercised) shall be paid in cash, by wire transfer, or by certified check or bank draft payable to the order of ALC, by exchange of Shares of unrestricted Common Stock of ALC already owned by the Employee (that have been purchased on the open market by the Employee and held for at least six months prior to exercise) and having an aggregate Fair Market Value equal to the full purchase price, or by any other procedure approved by the Committee, or by a combination of the foregoing.

c. Employees who are not Executive Officers (as such term is defined the by Securities and Exchange Commission) may also give notice and make payment through a brokerage firm pursuant to an arrangement approved by ALC in advance.

5. Exercise of Stock Appreciation Rights. SARs as to which the Employee is vested, which have become exercisable, and which have not terminated may be exercised by delivery to the Secretary of ALC of a written or electronic notice, complying with the applicable procedures established by the Committee or ALC, stating the whole number of SARs that are thereby exercised. Upon exercise, ALC shall deliver to Employee or Employee's legal representative, at the absolute discretion of the Committee, either (i) the number of Shares (rounded down to the nearest whole Share) (the "**Number of Equivalent Shares**") equal to (x) (A) the excess, if any, of the Fair Market Value per Share on the exercise date over the Exercise Price per Share of the SAR, multiplied by (B) the number of SARs being exercised pursuant to such notice, divided by (y) the Fair Market Value per Share on the exercise date, (ii) cash equal to the Fair Market Value per Share on the exercise date multiplied by the Number of Equivalent Shares, or (iii) any combination of cash and Shares with an aggregate value equal to the Fair Market Value per Share on the exercise date multiplied by the Number of Equivalent Shares.

6. Expiration of Stock Options/SARs. Unless the Committee determines otherwise and except as otherwise provided in Section 7 or in your Employment Agreement unexercised Options/SARs expire (i) automatically on the date of your Termination of Employment for Cause (as defined in your Employment Agreement or, if your Employment Agreement does not contain a definition of Cause) or (ii) 90 days after the effective date of your Termination of Employment for any reason other than Cause; provided that any portion of the Stock Options/SARs that is not vested as of such effective date ceases vesting and terminates immediately; and provided further that all Options/SARs will automatically expire on the fifth anniversary of this Award Agreement.

7. Termination of Employment.

a. If the Employee incurs a Termination of Employment due to Disability, the Stock Options/SARs, to the extent outstanding at the time of such Termination of Employment, shall become immediately vested and fully exercisable and may be exercised by the Employee at any time prior to the first to occur of (i) one year after such Termination of Employment or (ii) the expiration date of the Stock Options/SARs, and shall thereafter expire.

b. If the Employee incurs a Termination of Employment due to death, the Stock Options/SARs, to the extent outstanding at the time of such Termination of Employment, shall become immediately vested and fully exercisable and may

be exercised by the Employee's estate or by a person who acquired the right to exercise such Stock Options/SARs by bequest or inheritance or otherwise by reason of the death of the Employee at any time prior to the first to occur of (i) one year after such Termination of Employment or (ii) the expiration date of the Stock Options/SARs, and shall thereafter expire.

c. If the Employee incurs a Termination of Employment due to retirement at or after age 65, the portion of the Stock Options/SARs, if any, which is exercisable at the time of such Termination of Employment may be exercised at any time prior to the first to occur of (i) three years after such Termination of Employment or (ii) the expiration date of the Stock Options/SARs, and shall thereafter expire. Any portion of the Stock Options/SARs that is not exercisable at the time of such Termination of Employment due to retirement at or after age 65 shall expire as of such Termination of Employment.

d. If the Employee incurs a voluntary Termination of Employment by the Employee (other than retirement at or after age 65), the portion of the Stock Options/SARs, if any, which is exercisable at the time of such Termination of Employment may be exercised at any time prior to the first to occur of (i) 30 days after such Termination of Employment or (ii) the expiration date of the Stock Options/SARs, and shall thereafter expire. Any portion of the Stock Option/SAR that is not exercisable at the time of such Termination of Employment shall expire as of such Termination of Employment.

e. If the Employee incurs a Termination of Employment by ALC without Cause, the portion of the Stock Options/SARs, if any, which is exercisable at the time of such Termination of Employment may be exercised at any time prior to the first to occur of (i) 90 days after such Termination of Employment or (ii) the expiration date of the Stock Option/SAR, and shall thereafter expire. Any portion of the Stock Options/SARs that is not exercisable at the time of such Termination of Employment shall expire as of such Termination of Employment. For purposes of this Award Agreement, **Cause** means, unless otherwise provided by the Committee, (1) "Cause" as defined in any Employment Agreement, or (2) if there is no such Employment Agreement or if it does not define Cause: (A) conviction of Employee for committing a felony under federal law or the law of the state in which such action occurred, (B) dishonesty in the course of fulfilling Employee's employment duties, (C) willful and deliberate failure on the part of Employee to perform his or her employment duties in any material respect, or (D) prior to a Change in Control, such other events as shall be determined by the Committee. The Committee shall, unless otherwise provided in any employment or similar agreement between Employee and ALC, have the sole discretion to determine whether "Cause" exists, and its determination shall be final.

8. Voting Rights; Dividend Equivalents. Prior to the date on which your rights with respect to Options/SARs have become vested and you exercise such Options/SARs, you shall not be entitled to exercise any voting rights with respect to such Options/SARs or any Shares with respect thereto, and shall not be entitled to receive dividends or other distributions with respect thereto.

9. Non-Transferability of Options/SARs. Unless otherwise provided by the Committee in its discretion, Options/SARs may not be sold, assigned, alienated, transferred, pledged, attached or otherwise encumbered except as provided in Section 9(a) of the Plan. Any purported sale, assignment, alienation, transfer, pledge, attachment or other encumbrance of Options/SARs in violation of the provisions of this Section 9 and Section 9(a) of the Plan shall be void.

10. Adjustment in the Event of Change in Stock. In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of ALC, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of ALC, the number and kind of shares subject to the Stock Option/SAR and/or the exercise price per share shall be adjusted by the Board or Committee as the Board or Committee may determine to be appropriate in its sole discretion; provided, however, that the number of shares subject to the Stock Options/SARs shall always be a whole number. The determination of the Board or Committee regarding any adjustment will be final and conclusive.

11. Payment of Transfer Taxes, Fees and Other Expenses. ALC agrees to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of Shares acquired pursuant to exercise of the Stock Options/SARs, together with any and all other fees and expenses necessarily incurred by ALC in connection therewith.

12. Other Restrictions on Exercisability. The exercise of the Stock Options/SARs and the delivery of share certificates upon such exercise shall be subject to the requirement that, if at any time the Committee shall determine that (a) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law or (b) the consent or approval of any government regulatory body is, in the case or (a) or (b), necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of shares pursuant

thereto, then in any such event such exercise shall not be effective unless such listing, registration, qualification, consent, or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

13. Taxes and Withholdings. No later than the date of exercise of the Stock Options/SARs granted hereunder, the Employee shall pay to ALC or make arrangements satisfactory to the Committee regarding payment of any federal, state and local taxes, and any non-U.S. taxes applicable to the Employee, of any kind required by law to be withheld upon the exercise of such Stock Options/SARs. In the event that there is withholding tax liability in connection with the exercise of Options/SARs, you may satisfy, in whole or in part, any withholding tax liability by having ALC withhold from the number of Shares you would be entitled to receive pursuant to the exercise of the Options/SARs, a number of Shares having a Fair Market Value equal to such withholding tax liability. ALC shall, to the extent permitted or required by law, have the right to deduct from any payment of any kind otherwise due to the Employee federal, state, local and applicable non-U.S. taxes of any kind required by law to be withheld upon the exercise of such Stock Options/SARs.

14. Consents and Legends.

a. Consents. Your rights in respect of the Options/SARs that are subject to this Award are conditioned on the receipt to the full satisfaction of the Committee of any required consents that the Committee may reasonably determine to be necessary or advisable (including, without limitation, your consenting to ALC's supplying to any third-party record keeper of the Plan such personal information as ALC or the Committee deems advisable to administer the Plan).

b. Legends. ALC may affix to certificates for Shares issued pursuant to this Award Agreement any legend that ALC or the Committee determines to be necessary or advisable (including to reflect any restrictions to which you may be subject under any applicable securities laws). ALC may advise the transfer agent to place a stop order against any legended Shares.

15. Successors and Assigns of ALC. The terms and conditions of this Award Agreement shall be binding upon and shall inure to the benefit of ALC and its successors and assigns.

16. Committee Discretion. Subject to the terms of your Employment Agreement, the Committee shall have full and plenary discretion with respect to any actions to be taken or determinations to be made in connection with this Award Agreement, and its determinations shall be final, binding and conclusive.

17. Dispute Resolution.

a. Jurisdiction and Venue. Notwithstanding any provision in your Employment Agreement, you and ALC irrevocably submit to the exclusive jurisdiction of (i) the United States District Court for the Eastern District of Wisconsin and (ii) the courts of the State of Wisconsin for the purposes of any suit, action or other proceeding arising out of this Award Agreement or the Plan. You and ALC agree to commence any such action, suit or proceeding either in the United States District Court for the Eastern District of Wisconsin or, if such suit, action or other proceeding may not be brought in such court for jurisdictional reasons, in the courts of the State of Wisconsin. You and ALC further agree that service of any process, summons, notice or document by U.S. registered mail to the other party's address set forth below shall be effective service of process for any action, suit or proceeding in Wisconsin with respect to any matters to which you have submitted to jurisdiction in this Section 17(a). You and ALC irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this Award Agreement or the Plan in (A) the United States District Court for the Eastern District of Wisconsin or (B) the courts of the State of Wisconsin, and hereby and thereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

b. Waiver of Jury Trial. You and ALC hereby waive, to the fullest extent permitted by applicable law, any right either of you may have to a trial by jury in respect to any litigation directly or indirectly arising out of, under or in connection with this Award Agreement or the Plan.

c. Confidentiality. You hereby agree to keep confidential the existence of, and any information concerning, a dispute described in this Section 17, except that you may disclose information concerning such dispute to the court that is considering such dispute or to your legal counsel or other advisors (provided that such counsel or other advisors agree not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

18. Notice. All notices, requests, demands and other communications required or permitted to be given under the terms of this Award Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or

overnight courier or three Business Days after they have been mailed by U.S. registered mail, return receipt requested, postage prepaid, addressed to the other party as set forth below:

If to ALC:

Assisted Living Concepts, Inc.
111 West Michigan Street
Milwaukee, WI 53203
Attention: Corporate Secretary

If to Employee:

The parties may change the address to which notices under this Award Agreement shall be sent by providing written notice to the other in the manner specified above.

19. Headings. Headings are given to the Sections and subsections of this Award Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Award Agreement or any provision thereof.

20. Amendment of this Award Agreement. The Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate this Award Agreement prospectively or retroactively; provided, however, that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would materially and adversely impair your rights under this Award Agreement shall not to that extent be effective without your consent (it being understood, notwithstanding the foregoing proviso, that this Award Agreement and the Options/SARs shall be subject to the provisions of Section 7(c) of the Plan).

21. Counterparts. This Award Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties have duly executed this Award Agreement as of the date first written above.

CERTIFICATIONS

I, Laurie A. Bebo, Chief Executive Officer of Assisted Living Concepts, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Assisted Living Concepts, Inc. (“Registrant”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

/s/ Laurie A. Bebo
Laurie A. Bebo
Chief Executive Officer
May 11, 2007

CERTIFICATIONS

I, John Buono, Chief Financial Officer of Assisted Living Concepts, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Assisted Living Concepts, Inc. (“Registrant”);
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

/s/ John Buono
John Buono
Chief Financial Officer
May 11, 2007

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Quarterly Report of Assisted Living Concepts, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie A. Bebo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Laurie A. Bebo

Laurie A. Bebo
Chief Executive Officer
May 11, 2007

EXHIBIT 32.2

Certification Pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Quarterly Report of Assisted Living Concepts, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Buono, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Buono

John Buono
Chief Financial Officer

May 11, 2007