

FORM 10-Q

ASSISTED LIVING CONCEPTS INC - ALC

Filed: May 08, 2008 (period: March 31, 2008)

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

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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, 2008

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.)*

**W140 N8981 Lilly Road
Menomonee Falls, Wisconsin**
(Address of principal executive offices)

53051
(Zip Code)

Registrant's telephone number, including area code: (262) 257-8888

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 5, 2008, the Company had 54,638,798 shares of its Class A Common Stock, \$0.01 par value outstanding and 8,708,277 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.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,142	\$ 14,066
Investments	3,608	4,596
Accounts receivable, less allowances of \$971 and \$992, respectively	3,555	3,746
Supplies, prepaid expenses and other current assets	7,325	6,733
Deferred income taxes	4,287	4,080
Total current assets	32,917	33,221
Property and equipment, net	395,554	395,141
Goodwill and other intangible assets, net	30,892	20,736
Restricted cash	3,800	8,943
Cash designated for acquisition	—	14,864
Other assets	3,440	3,336
Total assets	<u>\$ 466,603</u>	<u>\$ 476,241</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,842	\$ 7,800
Accrued liabilities	18,116	17,951
Deferred revenue	6,989	6,346
Accrued income taxes	127	198
Current maturities of long-term debt	26,260	26,543
Current portion of self-insured liabilities	300	300
Total current liabilities	59,634	59,138
Accrual for self-insured liabilities	1,028	941
Long-term debt	99,735	103,176
Deferred income taxes	7,822	9,008
Other long-term liabilities	9,523	9,444
Commitments and contingencies		
Total Liabilities	<u>177,742</u>	<u>181,707</u>
Preferred Stock, par value \$0.01 per share, 25,000,000 shares authorized, none issued or outstanding	—	—
Class A Common Stock, par value \$0.01 per share, 400,000,000 shares authorized, 54,628,796 and 56,131,873 issued and outstanding, respectively	595	595
Class B Common Stock, par value \$0.01 per share, 75,000,000 shares authorized, 8,717,573 and 8,727,458 issued and outstanding, respectively	100	100
Additional paid-in capital	313,551	313,548
Accumulated other comprehensive (loss) income	(524)	103
Retained earnings	23,369	19,318
Treasury stock at cost, Class A Common Stock 6,204,760 and 4,691,060 shares, respectively	(48,230)	(39,130)
Total Stockholders' Equity	<u>288,861</u>	<u>294,534</u>
Total Liabilities and Stockholders' Equity	<u>\$ 466,603</u>	<u>\$ 476,241</u>

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

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

	Three Months Ended	
	March 31,	
	2008	2007
Revenues	\$ 60,247	\$ 57,521
Expenses:		
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	38,925	37,758
General and administrative	3,090	2,987
Residence lease expense	4,898	3,699
Depreciation and amortization	4,896	4,181
Transaction costs	—	56
Total operating expenses	<u>51,809</u>	<u>48,681</u>
Income from operations	8,438	8,840
Other expense:		
Interest income	179	466
Interest expense	<u>(2,083)</u>	<u>(1,681)</u>
Income before income taxes	6,534	7,625
Income tax expense	<u>(2,483)</u>	<u>(2,898)</u>
Net income	<u>\$ 4,051</u>	<u>\$ 4,727</u>
Weighted average common shares:		
Basic	64,545	69,482
Diluted	65,199	70,205
Per share data:		
Basic earnings per common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>
Diluted earnings per common share	<u>\$ 0.06</u>	<u>\$ 0.07</u>

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

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

	Three Months Ended March 31,	
	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 4,051	\$ 4,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,896	4,181
Amortization of purchase accounting adjustments for:		
Leases and debt	(215)	(215)
Below market resident leases	—	(39)
Provision for bad debt	21	150
Provision for professional/general liability insurance	224	150
Payments for professional/general liability insurance	(126)	(143)
Deferred income taxes	2,101	551
Equity-based compensation expense	3	6
Changes in assets and liabilities:		
Accounts receivable	170	65
Supplies, prepaid expenses and other current assets	(592)	350
Accounts payable	42	(1,014)
Accrued liabilities	(464)	(1,520)
Deferred revenue	643	1,962
Income taxes payable/receivable	290	2,461
Other non-current assets	5,039	887
Other long-term liabilities	176	353
Cash provided by operating activities	<u>16,259</u>	<u>12,912</u>
INVESTING ACTIVITIES:		
Payment for acquisition	(14,524)	—
Cash designated for acquisition	14,864	—
Payments for new construction projects	(249)	(1,152)
Payments for purchases of property and equipment	(3,557)	(2,827)
Cash used in investing activities	<u>(3,466)</u>	<u>(3,979)</u>
FINANCING ACTIVITIES:		
Capital contributions from Extencicare	—	73
Purchase of treasury stock	(9,100)	—
Repayment of revolving credit facility	(3,000)	—
Payments of long-term debt	(617)	(561)
Cash used in financing activities	<u>(12,717)</u>	<u>(488)</u>
Increase in cash and cash equivalents	76	8,445
Cash and cash equivalents, beginning of year	14,066	19,951
Cash and cash equivalents, end of period	<u>\$ 14,142</u>	<u>\$ 28,396</u>
Supplemental schedule of cash flow information:		
Cash paid during the period for:		
Interest	\$ 2,172	\$ 1,792
Income tax payments, net of refunds	96	(113)

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

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Assisted Living Concepts, Inc. and its subsidiaries (“ALC” or the “Company”) operate 216 assisted and independent living residences in 20 states in the United States totaling 9,076 units as of March 31, 2008. ALC’s residences average approximately 40 to 60 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 shares of ALC Class A and Class B Common Stock were distributed to Extendicare Inc., now known as Extendicare Real Estate Investment Trust (“Extendicare”), stockholders (the “Separation”).

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

The accompanying unaudited condensed 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 periods ended March 31, 2008 and 2007 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, 2007. Operating results are not necessarily indicative of results that may be expected for the entire year ending December 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Presentation and Consolidation

ALC’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the 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.

The accompanying condensed consolidated financial statements include the financial statements of ALC and all its majority owned subsidiaries. All significant intercompany accounts and transactions with subsidiaries have been eliminated from the condensed consolidated financial statements.

(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 March 31, 2008 and December 31, 2007, the Company had approximately 66% and 60%, respectively, of its accounts receivable derived from private payer sources, with the balance owing under various state Medicaid programs. Although management believes there are no credit risks associated with 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.

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 developed internally-determined percentages for establishing an allowance for doubtful accounts, which are based upon

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 in the allowance for doubtful accounts until they are written off or collected. The Company wrote off accounts receivable of \$0.2 million and \$0.3 million in the three month periods ended March 31, 2008 and 2007, respectively. Bad debt expense was \$0.2 million for both three month periods ended March 31, 2008 and 2007.

(c) Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholders' equity which under GAAP are excluded from results of operations. For the three months ended March 31, 2008 and 2007, this consists of unrealized losses on available for sale investment securities, net of any related tax effect.

	Three Months Ended	
	March 31,	
	2008	2007
	(In thousands)	
Net income	\$ 4,051	\$ 4,727
Unrealized losses	(627)	(242)
Total comprehensive income	\$ 3,424	\$ 4,485

(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 became 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 de-recognition, 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 for the Company.

As of March 31, 2008, the ALC has total gross unrecognized tax benefits of approximately \$650,000 compared with approximately \$630,000 as of December 31, 2007, representing an increase of approximately \$20,000 for the first three months of 2008. Of the total gross unrecognized tax benefits, \$340,000, if recognized, would reduce our effective tax rate in the period of recognition. At March 31, 2008, we had accrued interest and penalties related to unrecognized tax benefits of \$170,000.

ALC and its subsidiaries file income tax returns in the U.S. and in various state and local jurisdictions. At March 31, 2008, ALC is under examination by the Internal Revenue Service (the "IRS") for the 2005 and 2006 tax years. The IRS examination of the 2004 tax return was closed in the quarter ended March 31, 2008. Our gross unrecognized tax benefits balance is not expected to change upon completion of the exams.

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(e) New Accounting Pronouncements

On September 15, 2006, the FASB issued SFAS 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 generally accepted accounting principles. SFAS No. 157 requires the fair value of an asset or liability to be based on a market based measure which reflects the credit risk of the company. SFAS No. 157 also requires expanded disclosures including the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. The Company adopted SFAS No. 157 on January 1, 2008 and it has not had a material impact on our consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted SFAS 159 on January 1, 2008 and it has not had a material impact on our consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

(f) Reclassifications

Certain reclassifications have been made in the prior years' financial statements to conform to the current year's presentation.

3. 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"). On May 5, 2008, the 2006 Omnibus Plan was again approved by ALC stockholders. 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 had an exercise price of \$11.80, the closing price of the Class A common stock on the New York Stock Exchange on the date of grant, and an expiration date five years from the grant date. The Options/SARs had both time vesting and performance vesting features. On February 26, 2008 the Committee determined that the performance goals were not achieved in fiscal 2007 (related to reductions in Medicaid occupancy and maintenance of overall occupancy) and the Options/SARs expired.

On March 29, 2008, the Committee approved the 2008 Long-Term Equity-Based Compensation Program and granted 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 487,500. The Options/SARs have both time vesting and performance vesting features. If the established performance goals (related to private pay occupancy) are achieved in fiscal 2008, 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

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 \$5.89, the closing price of the Class A common stock on the New York Stock Exchange on March 31, 2008, the first trading day after the grant date, and expire five years from the grant date.

ALC adopted FASB Statement No. 123 (revised), *Share-Based Payment* (“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 periods ended March 31, 2008 and 2007 is presented below.

	2008		2007	
	# Options / SARs	Weighted Average Exercise Price	# Options / SARs	Weighted Average Exercise Price
Outstanding at beginning of period	320,000	\$ 11.80	—	—
Granted	487,500	\$ 5.89	380,000	\$ 11.80
Exercised	—	—	—	—
Expired	(320,000)	\$ 11.80	—	—
Outstanding at end of period	487,500	\$ 5.89	380,000	\$ 11.80
Options Exercisable at March 31	—	\$ —	—	\$ —
Weighted average fair value of options	\$ 2.58		\$ 6.01	
Aggregate intrinsic value of options	\$ —		\$ —	
Weighted average contractual term	4.9 years		4.9 years	

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 29, 2008, the Company used a risk free rate equal to the five year U.S. Treasury yield in effect on the first business date after 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 ALC’s Class A common stock volatility since it began trading on November 10, 2006 and ending on the date of grant. Because the Class A common stock has traded for less than the expected contractual term, 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 was compared to the historical ALC volatility with no material difference. 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.

	2008	2007
Expected life from grant date (in years)	5	5
Risk-free interest rate	2.50%	5.45%
Volatility	46.9%	53.1%
Dividend yield	—	—
Weighted average fair value (per share)	\$2.58	\$6.01

The grant of the Options/SAR’s had no impact on the diluted number of shares in either the quarter ended March 31, 2008 or March 31, 2007. Compensation expense of \$3,446 and \$6,000 related to the Options/SARs was recorded in the quarters ended March 31, 2008 and 2007, respectively. Unrecognized compensation cost at March 31, 2008 and 2007 is approximately \$1.3 million and \$2.3 million, respectively, and the weighted average period over which it is expected to be recognized is three years.

ASSISTED LIVING CONCEPTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The following is a summary of the changes in the carrying amount of goodwill for the three months ended March 31, 2008 (in thousands):

Balance at December 31, 2007	\$19,909
Additions	—
Adjustments	<u>(3,494)</u>
Balance at March 31, 2008	<u>\$16,415</u>

The adjustment to goodwill related to reversing a valuation allowance against deferred tax assets associated with the completion of an IRS audit of the 2004 tax return. These deferred tax assets were recorded prior to the Company's acquisition by Extendicare in January 2005.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of other intangible assets as of March 31, 2008 and December 31, 2007 (dollars in thousands):

	March 31, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Resident relationships	\$ 9,304	\$ (6,654)	\$ 2,650	\$ 7,099	\$ (6,272)	\$ 827
Operating lease intangible and renewal options	11,216	(345)	10,871	—	—	—
Non-compete agreements	1,006	(50)	956	—	—	—
Total	<u>\$ 21,526</u>	<u>\$ (7,049)</u>	<u>\$ 14,477</u>	<u>\$ 7,099</u>	<u>\$ (6,272)</u>	<u>\$ 827</u>

Amortization expense related to definite-lived intangible assets for the three months ended March 31, 2008 and 2007 was \$0.8 million and \$0.5 million, respectively.

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 income are presented. 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 Class A common shares per Class B common share. Common stock equivalents from stock options are excluded for the three month periods ended March 31, 2008 and March 31, 2007, as their effect was not dilutive.

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, 2008 and 2007.

ASSISTED LIVING CONCEPTS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended March 31,	
	2008	2007
	(In thousands, except per share data)	
<u>Basic earnings per share calculation</u>		
Numerator:		
Net income to common stockholders	\$ 4,051	\$ 4,727
Denominator:		
Weighted average of common shares outstanding	64,545	69,482
Basic earnings per share	\$ 0.06	\$ 0.07
<u>Diluted earnings per share calculation</u>		
Numerator:		
Net income to common stockholders	\$ 4,051	\$ 4,727
Denominator:		
Weighted average of common shares outstanding	64,545	69,482
Assumed conversion of Class B shares	654	723
Diluted weighted average shares outstanding	65,199	70,205
Diluted earnings per share	\$ 0.06	\$ 0.07

6. ACQUISITION

On January 1, 2008, ALC acquired the operations of eight assisted and independent living residences consisting of a total of 541 leased units for a purchase price including fees and expenses of \$14.8 million. The lease has an initial term expiring in March 2015 with three five-year renewal options. ALC financed this transaction with borrowings under its \$100 million credit facility. In connection with the assumed lease, the Company guarantees certain quarterly minimum occupancy levels and are subject to net worth, minimum capital expenditure requirements per residence, per annum and minimum fixed charge coverage ratios. Failure to comply with these covenants could result in an event of default under the lease. At March 31, 2008, ALC was in compliance with all covenants.

The Company's initial allocation of fair value resulted in the following:

	(In thousands)
Operating lease intangible and renewals	\$ 11,216
Resident relationship intangible	2,205
Non-compete agreements	1,006
Vehicles	97
Other	300
Total	\$ 14,824

The operating lease intangible and renewals will be amortized over the corresponding time frames of the lease or option, the resident relationship intangible will be amortized over three to four years, and the non-compete agreements will be amortized over the term of the non-compete agreements which is five years. Vehicles will be depreciated over four years.

7. SHARE REPURCHASE

On December 14, 2006, the Board of Directors of the Company authorized a share repurchase program of up to \$20 million of the Company's Class A Common Stock. On August 20, 2007 and December 18, 2007, the Board of Directors expanded the repurchase program by an additional \$20 million and \$25 million, respectively, bringing the total authorized share repurchase to \$65 million through December 18, 2008. Shares may be repurchased 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, 2008, 6,204,760 shares had been repurchased for a total cost of \$48.2 million at an average cost of

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\$7.77 per share. During the first quarter of 2008, the Company purchased 1,513,700 shares at an average cost of \$6.01 per share, for a total cost of \$9.1 million. The stock repurchases were financed through existing funds and borrowings under the Company's existing \$100 million credit facility.

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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 risks, uncertainties and assumptions described or referred to in Item 1A — Risk Factors in Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, 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 condensed consolidated financial statements and the related notes to the condensed consolidated financial statements in Part I, Item 1 of this report.

Executive Overview

In the first quarter of 2008 we increased our average private pay occupancy by 412 units over the first quarter of 2007. The increase in occupied private pay units resulted from acquiring 481 occupied private pay units in the January 1, 2008 acquisition of the operations of BBLRG, LLC doing business as Cara Vita (the "Cara Vita Acquisition") and 85 occupied private pay units from the July 20, 2007 acquisition of a newly built residence in Dubuque, Iowa (the "Dubuque Acquisition" and together with the Cara Vita Acquisition, the "Acquisitions"), partially offset by a reduction in our same residence portfolio of 154 occupied private pay units. Compared to the fourth quarter of 2007, our private pay occupancy increased by 315 units of which 481 were attributable to the Cara Vita Acquisition, partially offset by a reduction in our same residence portfolio of 166 private pay units.

In the first quarter of 2008, we continued to reduce the number of units available to Medicaid residents. As compared to the first quarter of 2007 we reduced our occupied Medicaid units by 868 units. We exited Medicaid contracts at an accelerated pace in 2007, primarily in response to actions by the State of Texas to initiate a managed Medicaid system. Had the State of Texas not initiated managed Medicaid service agreements through third parties, we would not have allowed our traditional Medicaid contracts to lapse during the first half of 2007. Although the accelerated phase of our exit from Medicaid contracts in Texas is complete, our Medicaid census continues to decline because we no longer accept new Medicaid residents and only allow private pay residents to rollover into the Medicaid program in a very limited number of residences. Compared to the fourth quarter of 2007, our number of units occupied by Medicaid residents was reduced by 159 units.

We believe our strategy to reduce the number of units available to Medicaid residents has also impacted our private pay population. As discussed above, in the first quarter of 2008 we had a reduction of 154 private pay occupied units on a same residence basis. We believe this reduction largely represents private pay residents who resided in our residences with the intention of rolling into Medicaid programs. We believe our strategy to no longer allow Medicaid rollovers resulted in their accelerated move out as they relocated into residences that accept rollovers to Medicaid programs. Comparing the first quarter of 2008 to the first quarter of 2007, 186 of the reduction in private pay units occurred at residences with Medicaid contracts or where we recently ended Medicaid contracts. Over that same time period, our private pay occupancy at residences that do not accept Medicaid increased by 32 units. The reduction from these circumstances is referred to in this report as the "Private Pay Impact".

Looking at the 166 private pay unit reduction in the first quarter of 2008 as compared to the fourth quarter of 2007, the Private Pay Impact moderated with 97 of the reduction in private pay units occurring at residences with Medicaid contracts or residences where we recently ended Medicaid contracts. Over that same time period, our private pay occupancy at residences that do not accept Medicaid decreased by 69 units. During this period we continued to experience a high level of private pay resident move outs without the corresponding expected number of move-ins.

To the extent we have not been able to immediately fill vacancies with private pay residents, reducing the Medicaid population has resulted in reductions to our overall occupancy. We believe it is a necessary part of our long-term strategy to improve the overall revenue base. In the first quarters of 2008 and 2007, the average occupancy rate for all of our residences was 71.7% and 83.7%, respectively, and private pay revenues as a percent of total revenues were 90.6% and 81.4%, respectively.

Business Strategies

We plan to grow our revenue and operating income by:

- increasing the overall size of our portfolio through additions to existing residences and acquisitions;
- increasing our occupancy rate and the percentage of revenue derived from private pay sources; and

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- applying operating efficiencies achievable from owning a large number of assisted living residences.

Increasing the overall size of our portfolio through both building additional capacity to existing residences and acquisitions

As of the date of this report, we have begun construction for the expansion units in our program to add 400 units on to existing owned buildings. We are awaiting construction bids on only a few of the projects. To date, bids have been consistent with our original estimated cost of \$125,000 per unit. This unit cost includes the addition of common areas such as media rooms, family gathering areas and exercise facilities. Construction is expected to be completed during the second half of 2008. Our process of selecting buildings for expansion consisted of identifying what we believe to be our best performing buildings as determined by factors such as current occupancy, strength of the local management team, private pay mix of the current population, and demographic trends for the area.

We plan to continue to grow our portfolio by making selective acquisitions in markets with favorable private pay demographics. In November of 2006 we acquired a fully tenanted private pay 40 unit assisted living residence in Escanaba, Michigan at a cost of approximately \$4.6 million. On July 20, 2007, we completed the Dubuque Acquisition, a newly constructed 185 unit assisted/independent living residence in Dubuque, Iowa at a cost of approximately \$24.4 million.

Effective January 1, 2008, we completed the Cara Vita Acquisition, consisting of eight leased assisted living residences with a total of 541 units for a purchase price including expenses of \$14.8 million. The residences, five of which are located in Georgia, and one in each of South Carolina, Alabama and Florida were occupied with 481 private pay residents. The lease has an initial term expiring in March 2015 with three five-year renewal options.

Increasing our occupancy rate and the percentage of revenue derived from private pay sources

Our strategy is to increase the number of residents in our residences that are private pay, both by filling existing vacancies with private pay residents and by gradually decreasing the number of units that are available for residents that rely on Medicaid.

We use a focused sales and marketing effort to increase demand for our services among private pay residents that is designed to establish ALC as the provider of choice for residents who value wellness and quality of care. Because of the size of our operations and the depth of our experience in the senior living industry, we believe we are able to effectively identify and maximize cost efficiencies and expand our portfolio by investing in attractive assets in our target communities. Additional regional, divisional and corporate costs associated with our growth are anticipated to be proportionate to current operating levels.

We plan to improve our payer mix by increasing our private pay population. Specifically, through March 31, 2008, we have increased the number of units available to private pay residents by exiting Medicaid contracts at 41 of our residences, and reaching an agreement with the state of Oregon to gradually reduce the number of units available to Medicaid residents through attrition. In limited circumstances we may be required to allow residents who were formally private pay to remain in the residence if they later qualify for Medicaid. We plan to focus on moving private pay residents into our residences. These initiatives are referred to in this report as the "Private Pay Initiatives." To the extent we do not immediately fill vacancies with private pay residents, reducing the Medicaid population results in reductions to our overall occupancy and revenues, but is a necessary part of our long-term strategy to improve the overall revenue base. Private pay rates generally exceed those offered through state Medicaid programs by 25% to 35%.

Applying operating efficiencies achievable from owning a large number of assisted living residences

The senior living industry, and specifically the independent living and assisted living segments, are large and fragmented and characterized by many small and regional operators. According to figures available from the American Seniors Housing Association, the top five operators of senior living residences measured by total resident capacity service less than 14% of total capacity. We plan to leverage the efficiencies of scale we have achieved through the consolidated purchasing power of our residences, our standardized operating model, and our centralized financial and management functions to lower costs at residences we may acquire.

The remainder of this 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, including 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 to anticipate future trends.

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- *Consolidated Results of Operations.* This section provides an analysis of our results of operations for the three months ended March 31, 2008 compared to the three months ended March 31, 2007.
- *Liquidity and Capital Resources.* This section provides a discussion of our liquidity and capital resources as of March 31, 2008, 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 condensed consolidated financial statements because their application on the part of management requires significant judgment and reliance on estimations of matters that are inherently uncertain.

Business Overview

Revenues

We generate revenue from private pay and Medicaid sources. For the three months ended March 31, 2008 and 2007, approximately 90.6% and 81.4%, respectively, of our revenues were generated from private pay sources. Residents are charged an accommodation fee that is based on the type of accommodation they occupy and a service fee that is based upon their assessed level of care. We generally offer studio, one-bedroom and two-bedroom accommodations. The accommodation fee is based on prevailing market rates of similar assisted living accommodations. The service fee is based upon periodic assessments, which include input of the resident and the resident's physician and family and establish 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 months ended March 31, 2008 and 2007, approximately 79% and 80%, respectively, of our private pay revenue was derived from accommodation fees with the balance derived from service fees. Both the accommodation and level of care service fees are charged on a per day basis, pursuant to residency agreements with month-to-month terms.

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

Although we intend to continue to reduce the number of units occupied by residents paying through Medicaid, as of March 31, 2008, we provided assisted living services to Medicaid funded residents at 73 of the residences we operate. Medicaid programs in each state determine the revenue rates for accommodations and levels of care. The basis of the Medicaid rates varies by state and in certain states is subject to negotiation.

Residence Operations Expenses

For all continuing residences, residence operations expense percentages consisted of the following at March 31.

	<u>2008</u>	<u>2007</u>
Wage and benefit costs	61%	63%
Property related costs	22	21
Other operating costs	<u>17</u>	<u>16</u>
Total	<u>100%</u>	<u>100%</u>

The largest component of our residence operations expense consist of wages and benefits and property related costs which include utilities, property taxes, and building maintenance related costs. Other operating costs include food, advertising, insurance, and other operational costs related to providing services to our residents.

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.

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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 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 service fees provided to private pay and Medicaid residents. The daily revenue rate by each payer source is calculated by dividing aggregate revenues earned by payer type by the total ADC for its payer source in the corresponding period.

Adjusted EBITDA and Adjusted 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. 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, our 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.

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 substitutes for net income, cash flows from operating activities, and other income or cash flow statement data prepared in accordance with GAAP, or as measures 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.

In addition, we assess the key performance indicators for residences that we operated in all reported periods, or "same residence" operations. Same residence data in this report excludes the Acquisitions.

ASSISTED LIVING CONCEPTS, INC.**ADC***All Continuing Residences*

The following table sets forth our average daily census (“ADC”) for the three month periods ended March 31, 2008 and 2007 for both private pay and Medicaid residents for all of the continuing residences whose results are reflected in our condensed consolidated financial statements.

Average Daily Census

	<u>2008</u>	<u>2007</u>
Private pay	5,631	5,219
Medicaid	873	1,741
Total ADC	<u>6,504</u>	<u>6,960</u>
Private pay revenue percentage	<u>90.6%</u>	<u>81.4%</u>

During the first quarter of 2008, total ADC on an all continuing residence basis decreased 6.6%, while private pay ADC increased 7.9%, and Medicaid ADC decreased 49.9%, from the corresponding period of 2007. Increased private pay census resulted from the Acquisitions, partially offset by the Private Pay Impact. Medicaid census reductions are consistent with our strategy to decrease 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 Acquisitions. The table sets forth our average daily census for the three month period ended March 31, 2008 and 2007 for both private and Medicaid payers for all residences on a same residence basis.

Average Daily Census

	<u>2008</u>	<u>2007</u>
Private pay	5,065	5,219
Medicaid	873	1,741
Total ADC	<u>5,938</u>	<u>6,960</u>
Private pay revenue percentage	<u>89.7%</u>	<u>81.4%</u>

During the first quarter of 2008, total ADC on a same residence basis decreased 14.7%, while private pay ADC decreased 3.0%, and Medicaid ADC decreased 49.9% from the corresponding periods of 2007. Private pay census decreases were primarily due to the Private Pay Impact. Same residence statistics for Medicaid residents changed for the same reasons discussed above for all continuing residences.

Occupancy Percentage

Occupancy percentages are impacted by our completion and opening of new residences and additions to existing residences. As total capacity of a newly completed addition or a new residence increases, occupancy percentages are impacted as the 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 impact on occupancy rates that developmental units have on historical results, we split occupancy information between mature and developmental units. In general, developmental units are defined as the additional units in a residence that has undergone an expansion or in a new residence that has opened. New units identified as developmental are classified as such for a period of no longer than 12 months after completion of construction. Between January 1, 2006 and March 31, 2008, we completed the following projects that increased our operational capacity: (1) 2006 — two additions (37 units) and one acquisition (40 units), (2) 2007— two additions (48 units) and the Dubuque Acquisition and (3) 2008 — the Cara Vita Acquisition. The 2006 acquisition and the 2008 Cara Vita Acquisition are being classified as mature as they were at least 90% occupied on the date of acquisition. As a result,

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these units (except for the 2006 acquisition and 2008 Cara Vita Acquisition) constitute the “developmental” units in the tables below. All units that are not developmental are considered mature units.

All Continuing Residences

The following table sets forth our occupancy percentages for the three month periods ended March 31, 2008 and 2007 for all mature and developmental continuing residences whose results are reflected in our condensed consolidated financial statements.

Occupancy Percentage

	2008		2007	
	# of Units	% Occupancy	# of Units	% Occupancy
Mature	8,845	72.4%	8,269	84.2%
Developmental	231	43.0%	55	54.6%
Total residences	9,076	71.7%	8,324	83.7%

For the three months ended March 31, 2008, we saw a decline in mature residences occupancy percentage from 84.2% to 72.4% and a decrease in occupancy in our developmental residences from 54.6% to 43.0%.

Occupancy percentages for all residences decreased from 83.7% in the 2007 period to 71.7% in the 2008 period.

The declines in our occupancy percentage for the three months ended March 31, 2008 is primarily due to our continuing focused effort to reduce the number of units available for Medicaid residents and the Private Pay Impact. Changes in the developmental category are a function of the small number of units and specific residences classified in this category.

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.

Occupancy Percentage

	2008		2007	
	# of Units	% Occupancy	# of Units	% Occupancy
Mature	8,304	71.4%	8,165	84.1%
Developmental	46	19.5%	34	54.6%
Total residences	8,350	71.1%	8,199	83.7%

For the three months ended March 31, 2008, we saw a decline in mature residences occupancy percentage from 84.1% to 71.4% and a decrease in occupancy in our developmental residences from 54.6% to 19.5%.

Occupancy percentages for all residences decreased from 83.7% in the 2007 period to 71.1% in the 2008 period.

The declines in our occupancy percentage for the three months ended March 31, 2008 is primarily due to our continuing focused effort to reduce the number of units available for Medicaid residents and the Private Pay Impact. Changes in the developmental category are a function of the small number of units and specific residences classified in this category.

Average Revenue Rate by Payer Source*All Continuing Residences*

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The following table sets forth our average daily revenue rates for the three month periods ended March 31, 2008 and 2007 for both private pay and Medicaid payers for all continuing residences whose results are reflected in our condensed consolidated financial statements.

Average Daily Revenue Rate

	<u>2008</u>	<u>2007</u>
Private pay	\$ 106.51	\$ 99.18
Medicaid	\$ 71.31	\$ 67.98
Total	<u>\$ 101.79</u>	<u>\$ 91.38</u>

The average private pay revenue rate increased by 7.4% in the three month period ended March 31, 2008 from the three month period ended March 31, 2007. The average Medicaid pay rate increased by 4.9% during the same time frame. The average daily private pay revenue rate increased primarily as a result of annual rate increases for both room and board and services. Overall Medicaid rates increased as a result of rate increases under exiting Medicaid contracts in states with historically lower reimbursement rates.

Number of Residences Under Operation

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

	<u>2008</u>	<u>2007</u>
Owned	153	152
Under capital lease	5	5
Under operating leases	<u>58</u>	<u>50</u>
Total under operation	<u>216</u>	<u>207</u>

Percent of residences:		
Owned	70.8%	73.4%
Under capital leases	2.3	2.4
Under operating leases	<u>26.9</u>	<u>24.2</u>
	<u>100.0%</u>	<u>100.0%</u>

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>2008</u>	<u>2007</u>
	(In thousands)	
Net income	\$ 4,051	\$ 4,727
Provision for income taxes	<u>2,483</u>	<u>2,898</u>
Income from continuing operations before income taxes	6,534	7,625
Add:		
Depreciation and amortization	4,896	4,181
Interest expense, net	<u>1,904</u>	<u>1,215</u>
Transaction costs	—	56
Non-cash equity based compensation	<u>3</u>	<u>6</u>
Adjusted EBITDA	13,337	13,083
Add: Residence lease expense	<u>4,898</u>	<u>3,699</u>
Adjusted EBITDAR	<u>\$ 18,235</u>	<u>\$ 16,782</u>

ASSISTED LIVING CONCEPTS, INC.

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

	<u>2008</u>	<u>2007</u>
	(\$ In thousands)	
Revenues	\$ 60,247	\$ 57,521
Adjusted EBITDA	\$ 13,337	\$ 13,083
Adjusted EBITDAR	\$ 18,235	\$ 16,782
Adjusted EBITDA as percent of total revenue	22.1%	22.7%
Adjusted EBITDAR as percent of total revenue	30.3%	29.2%

Adjusted EBITDA and adjusted EBITDAR increased in the first quarter of 2008 primarily due to increased revenues discussed below (\$2.7 million) partially offset by an increase in residence operations expenses (\$1.1 million), an increase in general and administrative expenses (\$0.1 million), and, for adjusted EBITDA, an increase in rental expense (\$1.2 million). Residence operations expenses and residence lease expense increased primarily from the Acquisitions, partially offset by reductions in labor expense.

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 of Operations

Three Months Ended March 31, 2008 Compared with Three Months Ended March 31, 2007

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.

	<u>2008</u>	<u>2007</u>
Revenues	100.0%	100.0%
Residence operations (exclusive of depreciation and amortization and residence lease expense shown below)	64.6	65.6
General and administrative	5.2	5.2
Residence lease expense	8.1	6.5
Depreciation and amortization	8.1	7.3
Transaction costs	—	0.1
Income from operations	14.0	15.3
Interest expense, net	(3.2)	(2.1)
Income tax expense	(4.1)	(5.0)
Net income	6.7%	8.2%

Revenues

Revenues in the three month period ended March 31, 2008 increased \$2.7 million, or 4.7%, to \$60.2 million from \$57.5 million in the three month period ended March 31, 2007. Revenues increased approximately \$5.1 million due to additional revenues from acquired residences, \$4.0 million due to higher average daily revenue as a result of rate increases, \$0.6 million due to one additional day in the quarter, and were partially offset by \$5.4 million due to the planned reductions in the number of units occupied by Medicaid residents, \$1.4 million due to a reduction in units occupied by private pay residents and \$0.2 million from leasing ALC’s corporate office in the 2007 period only.

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

Residence operating costs increased \$1.2 million, or 3.1%, in the three month period ended March 31, 2008 compared to the three month period ended March 31, 2007. Residence operating costs increased approximately \$3.3 million as a result of the Acquisitions, but were offset by \$2.1 million primarily due to reductions in labor costs.

General and Administrative

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General and administrative costs increased \$0.1 million, or 3.4%, in the three month period ended March 31, 2008 compared to the three month period ended March 31, 2007.

Residence Lease Expense

Residence lease expense increased \$1.2 million to \$4.9 million in the three month period ended March 31, 2008 compared to the three month period ended March 31, 2007. Lease expense increased approximately \$1.2 million from the CaraVita Acquisition.

Depreciation and Amortization

Depreciation and amortization increased \$0.7 million to \$4.9 million in the three month period ended March 31, 2008 compared to \$4.2 million in the three month period ended March 31, 2007. Amortization expense increased \$0.6 million from the Acquisitions and was offset by a decrease of \$0.4 million in resident relationship intangibles that resulted from the 2005 acquisition of ALC and that became fully amortized in January 2007. Depreciation increased \$0.1 million from two additions that were completed during 2007, \$0.1 million from the Dubuque Acquisition and an additional \$0.3 million from general capital expenditures across our portfolio of 216 residences.

Transaction Costs

No costs related to the Separation were incurred in the three month period ended March 31, 2008. Transaction costs related to our Separation from Extendicare amounted to approximately \$0.1 million in the three month period ended March 31, 2007.

Income from Operations

Income from operations for the three month period ended March 31, 2008 was \$8.4 million compared to \$8.8 million for the three month period ended March 31, 2007 due to the reasons described above.

Interest Income

Interest income decreased \$0.3 million to \$0.2 million in the three month period ended March 31, 2008 compared to the three month period ended March 31, 2007. The decrease was due to lower interest rates on invested cash and decreased cash available for investment.

Interest expense

Interest expense increased \$0.4 million to \$2.1 million in the three month period ended March 31, 2008 compared to the three month period ended March 31, 2007. The increase was due to borrowings on our \$100 million credit facility to fund the Acquisitions and repurchase of our Class A Common Stock.

Income before Income Taxes

Income before income taxes for the three month period ended March 31, 2008 was \$6.5 million compared to \$7.6 million for the three month period ended March 31, 2007 due to the reasons described above.

Income Tax Expense

Income tax expense for the three month period ended March 31, 2008 was \$2.5 million compared to \$2.9 million for the three month period ended March 31, 2007. Our effective tax rate was 38.0% for both the three month periods ended March 31, 2008 and 2007.

Net Income

Net income for the three month period ended March 31, 2008 was \$4.1 million compared to \$4.7 million for the three month period ended March 31, 2007 due to the reasons described above.

ASSISTED LIVING CONCEPTS, INC.**Liquidity and Capital Resources***Sources and Uses of Cash*

We had cash and cash equivalents of \$14.1 million at both March 31, 2008 and December 31, 2007. The table below sets forth a summary of the significant sources and uses of cash for the three month periods ended March 31.

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Cash provided by operating activities	\$ 16,259	\$ 12,912
Cash used in investing activities	(3,466)	(3,979)
Cash used in financing activities	(12,717)	(488)
Increase in cash and cash equivalents	<u>\$ 76</u>	<u>\$ 8,445</u>

Cash provided by operating activities was \$16.3 million in the three months ended March 31, 2008 compared to \$12.9 million in the three months ended March 31, 2007.

Our working capital decreased \$0.8 million in the three months ended March 31, 2008 compared to December 31, 2007. There were no significant changes in the components of working capital.

It is not unusual for us to operate in the position of a working capital deficit because our revenues are collected more quickly, often in advance, than our obligations are required to be paid. This can result in a low level of current assets to the extent cash has been deployed in business development opportunities, used to pay off longer term liabilities, or used to repurchase common stock. As discussed below, we have a line of credit in place to provide cash needed to satisfy our current obligations.

Property and equipment increased \$0.4 million in the three months ended March 31, 2008 compared to December 31, 2007. Property and equipment increased \$3.8 million from capital expenditures (including new construction), \$0.1 million from acquisitions, \$0.6 million of accrued construction costs related to our expansion plan and decreased by \$4.1 million from depreciation expense.

Total debt, including both current and long-term, was \$126.0 million as of March 31, 2008, a decrease of \$3.7 million from \$129.7 million at December 31, 2007. The decrease in debt was due to repayment of borrowings under our \$100 million credit facility of \$3.0 million, other mortgage debt payments of \$0.6 million, and amortization of market value adjustments of \$0.1 million.

Cash used in investing activities was \$3.5 million for the three months ended March 31, 2008 compared to \$4.0 million in the three months ended March 31, 2007. Investment activities in the three months ended March 31, 2008 included the CaraVita acquisition in January of 2008 for \$14.5 million (\$14.9 million had been designated for this acquisition as of December 31, 2007), payments for new construction projects of \$0.3 million and other capital expenditures of \$3.6 million. Investment activities in the three month period ended March 31, 2007 included \$1.1 million for new construction and \$2.8 million for other capital expenditures.

Cash used in financing activities was \$12.7 million for the three months ended March 31, 2008 compared to \$0.5 million in the three months ended March 31, 2007. In the 2008 period financing activities consisted primarily of the repurchase of 1,513,700 shares of Class A Common Stock at a total cost of \$9.1 million, repayment of borrowings under our \$100 million credit facility of \$3.0 million and \$0.6 million of repayments on other mortgage debt. In the 2007 period, financing activities consisted primarily of \$0.6 million of mortgage debt payments.

\$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 ALC 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 prime rate or LIBOR plus an amount that varies according to a pricing grid based on a consolidated leverage test. At March 31, 2008 this amount was 150 basis points. Under certain conditions, ALC may request a \$50 million increase in the facility.

ASSISTED LIVING CONCEPTS, INC.

There were \$39 million and \$0 million of borrowings under the facility at March 31, 2008 and March 31, 2007, respectively. As of December 31, 2007, borrowings of \$42 million were outstanding under the facility. At March 31, 2008, ALC was in compliance with all covenants and available borrowings under the facility were \$61 million.

Debt Instruments

There were no material changes in our debt obligations from December 31, 2007 to March 31, 2008, 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, 2007 to March 31, 2008.

Letters of credit

As of March 31, 2008, we had \$4.9 million in outstanding letters of credit, the majority of which are secured by cash. Approximately \$3.0 million of the letters of credit provide security for worker's compensation insurance and the remaining \$1.9 million of letters of credit are security for landlords of leased properties. During the quarter ended March 31, 2008, we changed liability insurance carriers which resulted in the release of a \$5.0 million letter of credit. All the letters of credit are renewed annually and have maturity dates ranging from July 2008 to January 2009.

Restricted Cash

As of March 31, 2008, restricted cash consists of \$0.6 million of cash deposits securing letters of credit, \$3.1 million of cash deposits as security for Oregon Trust Deed Notes, and \$0.1 million of cash deposits as security for HUD Insured Mortgages. In March 2008, we changed liability insurance carriers which resulted in the release of a \$5.0 million letter of credit and \$5 million of cash collateral.

Off Balance Sheet Arrangements

ALC has no off balance sheet arrangements.

Cash Management

As of March 31, 2008, we held unrestricted cash and cash equivalents of \$14.1 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

We believe 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.

Expansion Plans

As of the date of this report, we have begun construction for the expansion units in our program to add 400 units on to existing owned buildings. We are awaiting construction bids on only a few projects. To date, bids have been consistent with our original estimated cost of \$125,000 per unit. This unit cost includes the addition of common areas such as media rooms, family gathering areas and exercise facilities. Construction is expected to be completed during the second half of 2008. Our process of selecting buildings for expansion consisted of identifying what we believe to be our best performing buildings as determined by factors such as current occupancy, strength of the local management team, private pay mix of the current population, and demographic trends for the area.

Share Repurchase

ASSISTED LIVING CONCEPTS, INC.

On December 14, 2006, our Board of Directors authorized a share repurchase program of up to \$20 million of our Class A Common Stock. On August 20, 2007 and December 18, 2007, the Board of Directors expanded the repurchase program by an additional \$20 million and \$25 million, respectively, bringing the total authorized share repurchase to \$65 million through December 18, 2008. Shares may be repurchased 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, 2008, 6,204,760 shares had been repurchased for a total cost of \$48.2 million at an average cost of \$7.77 per share. During the first quarter of 2008, we purchased 1,513,700 shares at an average cost of \$6.01 per share, for a total cost of \$9.1 million. The stock repurchases were financed through existing funds and borrowings under our existing \$100 million credit facility.

Accrual for Self-Insured Liabilities

At March 31, 2008, we had an accrued liability for settlement of self-insured liabilities of \$1.3 million in respect of general and professional liability claims. Claim payments were \$0.1 million in the three months ended March 31, 2008 and there were no payments in the three months ended March 31, 2007. 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 \$1.3 million liability will be paid in the next twelve months. The timing of payments is not directly within our control, and, therefore, estimates are subject to change. We believe we have provided sufficient provisions for general and professional liability claims as of March 31, 2008.

At March 31, 2008, we had an accrual for workers' compensation claims of \$3.5 million. Claim payments for the three months ended March 31, 2008 and 2007 were \$0.5 million and \$0.4 million respectively. The timing of payments is not directly within our control, and, therefore, estimates are subject to change. We believe we have provided sufficient provisions for workers' compensation claims as of March 31, 2008.

At March 31, 2008, we had an accrual for medical insurance claims of \$1.1 million. The accrual is an estimate based on the historical claims per participant incurred over the historical lag time between date of service and payment by our third party administrator. The timing of payments is not directly within our control, and, therefore, estimates are subject to change. We believe we have provided sufficient provisions for medical insurance claims as of March 31, 2008.

Unfunded Deferred Compensation Plan

At March 31, 2008, we had an accrual of \$2.0 million for our unfunded deferred compensation plan. ALC implemented an unfunded deferred compensation plan in 2005 which is offered to company employees defined as highly compensated by the Internal Revenue Code in which participants may defer up to 10% of their base salary.

\$100 Million Credit Facility

On November 10, 2006, we entered into the revolving credit facility with General Electric Capital Corporation and other lenders. The revolving credit facility is available to us to provide liquidity for expansions, acquisitions, working capital, capital expenditures, share repurchases, and for other general corporate purposes. See "Liquidity and Capital Resources — \$100 Million Credit Facility" above for a more detailed description of the terms of the revolving credit facility.

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, 2007.

Critical Accounting Policies

Our condensed 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, 2007. We consider certain accounting policies to be critical to an understanding of our condensed 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, 2008, our long-term debt including the current portion consisted of fixed-rate debt of \$86.7 million, exclusive of a \$0.3 million purchase accounting market value adjustment and variable rate debt of \$39.0 million. As of December 31, 2007, our long-term debt consisted of fixed-rate debt of \$87.3 million, exclusive of a \$0.4 million purchase accounting market value adjustment and variable rate debt of \$42.0 million.

Our earnings are affected by changes in interest rates as a result of our borrowings on our \$100 million credit facility. At March 31, 2008, we had \$39.0 million of variable rate borrowings based on the LIBOR rate plus a premium. As of March 31, 2008, our variable rate is 150 basis points in excess of the LIBOR rate. For every 1% change in the LIBOR rate, our interest expense will change by approximately \$390,000 annually. This analysis does not consider changes in the actual level of borrowings or repayments that may occur subsequent to March 31, 2008. This analysis also does not consider the effects of the reduced level of overall economic activity that could exist in such an environment, nor does it consider actions that management might be able to take with respect to our financial structure to mitigate the exposure to such a change.

As of March 31, 2008, we have no material 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 since December 31, 2007.

Item 4. 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 Securities and Exchange 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, 2007.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In compliance with Item 703 of Regulation S-K, the Company provides the following summary of its purchases of Class A Common Stock during its first quarter of 2008.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share (excluding fees)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2008 to January 31, 2008	—	—	—	\$26,010,314
February 1, 2008 to February 29, 2008	—	—	—	\$26,010,314
March 31, 2008 to March 31, 2008	1,513,700(1)	\$6.00	1,513,700	\$16,933,529
Total	1,513,700(1)	\$6.00	1,513,700	\$16,933,529

(1) Consists of purchases made through the share purchase program originally announced on December 14, 2006 (\$20 million), and expanded on August 20, 2007 (additional \$20 million) and December 18, 2007 (additional \$25 million), under which ALC may repurchase up to \$65 million of its outstanding shares of Class A Common Stock through December 18, 2008.

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

The Company's Annual Meeting of Stockholders was held on May 5, 2008 ("Annual Meeting"). At the Annual Meeting, the only matters submitted for a vote were: (i) a proposal to elect nine directors to serve as directors until the 2009 Annual Meeting of Stockholders and until their respective successors are elected and qualified; (ii) a proposal to amend and restate the Company's Amended and Restated Articles of Incorporation; and (iii) a proposal to approve the 2006 Omnibus Incentive Compensation Plan.

A total of 35,381,340 shares of Class A Common Stock and 7,621,888 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 111,600,220 votes were represented at the meeting. As of the record date for the meeting, there were 54,628,653 shares outstanding of Class A Common Stock and 8,717,648 shares outstanding of Class B Common Stock.

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All of the nominated directors were elected. The results of the vote on the election of directors were:

<u>Name</u>	<u>For</u>	<u>Withheld</u>
Laurie A. Bebo	111,292,413	307,807
Alan Bell	111,080,998	519,222
Jesse C. Brotz	103,744,560	7,855,660
Derek H.L. Buntain	105,674,756	5,925,464
David J. Hennigar	104,249,566	7,350,654
Malen S. Ng	108,629,992	2,970,228
Melvin A. Rhineland	111,293,943	306,277
Charles H. Roadman II, MD	111,292,693	307,527
Michael J. Spector	111,405,457	194,763

The proposal to amend and restate the Company's Amended and Restated Articles of Incorporation was approved. The results of the vote on the proposal to amend and restate the Company's Amended and Restated Articles of Incorporation were:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
110,286,982	1,295,785	17,453	0

The proposal to approve the 2006 Omnibus Incentive Compensation Plan was approved. The results of the vote on the proposal to approve the 2006 Omnibus Incentive Compensation Plan were:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
106,131,068	1,562,081	14,964	3,892,107

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, including declines in housing markets that restrict the ability of seniors to obtain funds from the sale of their homes, 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, 2007 filed with the Securities and Exchange Commission and available through the Investor Relations

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.

SIGNATURE

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 8, 2008

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ASSISTED LIVING CONCEPTS, INC.
EXHIBIT INDEX TO MARCH 31, 2008 QUARTERLY REPORT ON FORM 10-Q

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation
10.1	Amended and Restated Master Lease Agreement, dated as of January 1, 2008, between subsidiaries of Assisted Living Concepts, Inc. and Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.1 to current report of Assisted Living Concepts, Inc. on Form 8-K dated December 31, 2007, File No. 001-13498)
10.2	Guaranty of Lease dated as of January 1, 2008, by Assisted Living Concepts, Inc. for the benefit of Ventas Realty, Limited Partnership (incorporated by reference to Exhibit 10.2 to current report of Assisted Living Concepts, Inc. on Form 8-K dated December 31, 2007, File No. 001-13498)
10.3	Form of 2008 Tandem Stock Option/Stock Appreciation Rights Award Agreement (incorporated by reference to Exhibit 10.3 to current report of Assisted Living Concepts, Inc. on Form 8-K dated March 29, 2008, File No. 001-13498)
10.4	Form of 2008 Cash Incentive Compensation Award Agreement (incorporated by reference to Exhibit 10.14 to Annual Report of Assisted Living Concepts, Inc. on Form 10-K for the fiscal year ended December 31, 2007, File No. 001-13498)
10.5	Employment Agreement — Laurie A. Bebo (incorporated by reference to Exhibit 10.1 to current report of Assisted Living Concepts, Inc. on Form 8-K dated April 15, 2008, File No. 001-13498)
10.6	Employment Agreement — John Buono (incorporated by reference to Exhibit 10.2 to current report of Assisted Living Concepts, Inc. on Form 8-K dated April 15, 2008, File No. 001-13498)
10.7	Employment Agreement — Eric B. Fonstad (incorporated by reference to Exhibit 10.3 to current report of Assisted Living Concepts, Inc. on Form 8-K dated April 15, 2008, File No. 001-13498)
10.8	Employment Agreement — Walter A. Levonowich (incorporated by reference to Exhibit 10.4 to current report of Assisted Living Concepts, Inc. on Form 8-K dated April 15, 2008, File No. 001-13498)
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 and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
ASSISTED LIVING CONCEPTS, INC.**

The corporation was incorporated under the name "Assisted Living Concepts, Inc." by the filing of its original Articles of Incorporation with the Secretary of State of Nevada on July 19, 1994. These Amended and Restated Articles of Incorporation were duly adopted in accordance with the provisions of Title 7, Chapter 78 of the Nevada Revised Statutes (collectively, the "Nevada Corporation Law" or "NCL"), Sections 390 and 403. The undersigned does hereby certify that the Amended and Restated Articles of Incorporation of the corporation are as follows:

ARTICLE I

NAME

The name of the corporation is Assisted Living Concepts, Inc. (hereinafter, the "Corporation").

ARTICLE II

REGISTERED OFFICE

The address of the Corporation's registered office in the State of Nevada is The Prentice-Hall Corporation System, Inc., 502 East John Street #E, Carson City, Nevada, 89706. The name of the registered agent at such address is The Prentice-Hall Corporation System, Inc. The Corporation may, from time to time, in the manner provided by law, change the resident agent and the registered office within the State of Nevada. The Corporation may also maintain an office or offices for the conduct of its business, either within or without the State of Nevada.

ARTICLE III

PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the NCL.

ARTICLE IV

EXISTENCE

The Corporation shall have perpetual existence.

ARTICLE V

CAPITAL STOCK

SECTION 5.01. Authorized Shares. (a) The total number of shares of all classes of stock that the Corporation shall have authority to issue is 500,000,000 shares consisting of:

- (i) 400,000,000 shares of Class A Common Stock, par value of \$0.01 per share (the "Class A Stock");
- (ii) 75,000,000 shares of Class B Common Stock, par value of \$0.01 per share (the "Class B Stock" and, together with the Class A Stock, the "Common Stock"); and
- (iii) 25,000,000 shares of Preferred Stock, par value of \$0.01 per share (the "Preferred Stock").

(b) Subject to Section 5.04(c) of this Article V and in addition to any authority granted to the board of directors of the Corporation (the "Board") under the NCL (either acting alone or together with approval of the Corporation's Stockholders), the number of authorized shares of any of the Class A Stock, the Class B Stock or the Preferred Stock may be increased or decreased (but not below the number of shares then outstanding), by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote thereon, irrespective of the provisions of Section 390(2) of the NCL (or any successor provision thereto), and no vote of the holders of any of the Class A Stock, Class B Stock or the Preferred Stock voting separately as a class shall be required therefore. Upon the Amended and Restated Articles of Incorporation filed on October 31, 2006

becoming effective on that date pursuant to Section 403(5) of the NCL (the “Effective Time”), each share of the Corporation’s common stock, par value \$0.01 per share (the “Old Common Stock”), issued and outstanding immediately prior to the Effective Time, was automatically reclassified as and converted into shares of Class A Stock and Class B Stock. The number of shares of Class A Stock resulting from such reclassification and conversion was equal to the number of shares of Extencare Inc. Subordinate Voting Shares outstanding as of the Effective Time and the number of shares of Class B Stock resulting from such reclassification and conversion was equal to the number of shares of Extencare Inc. Multiple Voting Shares outstanding as of the Effective Time. Any stock certificate that, immediately prior to the Effective Time, represented shares of Old Common Stock has been canceled and, upon presentation to the Corporation, was replaced with new stock certificates (the denominations of which have been determined in the Corporation’s sole discretion) representing the applicable number of shares of Class A Stock and Class B Stock.

SECTION 5.02. Common Stock. (a) Except as otherwise provided in these Amended and Restated Articles of Incorporation, the Class A Stock and the Class B Stock shall have the same rights and privileges and shall rank equally and share ratably as to all matters.

(b) Dividends and Distributions. (i) Subject to Section 5.02(b)(ii), and subject to the provisions of law and the terms of any outstanding Preferred Stock, dividends or other distributions with respect to the Class A Stock and the Class B Stock shall be made in an equal amount per share, at such times and in such amounts as may be determined by the Board and declared out of any funds lawfully available therefore, and shares of Preferred Stock of any series shall not be entitled to share therein except as otherwise expressly provided in the resolution or resolutions of the Board providing for the issue of such series. Dividends and other distributions with respect to the Class A Stock and the Class B Stock shall be payable only when, as and if declared by the Board.

(ii) Subject to the provisions of law and the terms of any outstanding Preferred Stock, if at any time a dividend or other distribution with respect to the Class A Stock or Class B Stock is to be paid in shares of Class A Stock or Class B Stock or any other securities of the Corporation or any other corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust or legal entity (a “Person”, which term includes the Corporation) (hereinafter sometimes called a “share distribution”), such share distribution shall be declared and paid only as follows:

(A) in the case of a share distribution consisting of shares of Class A Stock or Class B Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Class A Stock), the share distribution shall consist of shares of Class A Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Class A Stock) with respect to shares of Class A Stock and, on an equal per share basis, shares of Class B Stock (or Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Class B Stock) with respect to shares of Class B Stock;

(B) subject to Section 5.02(f) of this Article V, in the case of a share distribution consisting of shares of any class or series of securities of the Corporation other than Class A Stock or Class B Stock (and other than Convertible Securities that are convertible into, exchangeable for or evidence the right to purchase shares of Class A Stock or Class B Stock) or of a Subsidiary of the Corporation, on the basis of a distribution of one class or series of securities with respect to shares of Class A Stock and another class or series of securities with respect to shares of Class B Stock, and the securities so distributed (and, if applicable, the securities into which the distributed securities are convertible, or for which they are exchangeable, or which the distributed securities evidence the right to purchase) shall differ with respect to, but solely with respect to, their relative voting rights and related differences in conversion and share distribution provisions, and all such differences shall be identical to the corresponding differences in voting rights, conversion and share distribution provisions between the Class A Stock and the Class B Stock, so as to preserve the relative voting rights of each Class as in effect immediately prior to such share distribution, and such distribution shall be made on an equal per share basis; and

(C) subject to Section 5.02(f) of this Article V, in the case of a share distribution consisting of shares of any class or series of securities of any Person other than the Corporation or a Subsidiary of the Corporation, on the basis of a distribution of identical securities, on an equal per share basis, with respect to shares of Class A Stock and Class B Stock.

As used herein, the term “Subsidiary” means, when used with respect to any Person, (i) a corporation in which such Person and/or one or more Subsidiaries of such Person, directly or indirectly, owns capital stock having a majority of the total voting power in the election of directors (“Voting Power”) of all outstanding shares of all classes and series of capital stock of such

corporation entitled generally to vote in such election (“Voting Stock”) and (ii) any other Person (other than a corporation) in which such Person and/or one or more Subsidiaries of such Person, directly or indirectly, has (x) a majority ownership interest or (y) the power to elect or direct the election of a majority of the members of the governing body of such first-named Person.

As used herein, the term “Convertible Securities” shall mean any securities of the Corporation (other than any class of Common Stock) that are convertible into, exchangeable for or evidence the right to purchase any class of Common Stock, whether upon conversion, exercise or exchange, pursuant to anti-dilution provisions of such securities or otherwise.

(c) Subdivision or Combination. If the Corporation shall in any manner subdivide or combine the outstanding shares of Class A Stock or Class B Stock, the outstanding shares of the other class of Common Stock shall be proportionally subdivided or combined in the same manner and on the same basis as the outstanding shares of Class A Stock or Class B Stock, as the case may be, that have been subdivided or combined so as to preserve the relative aggregate Voting Power of the outstanding shares of each class and the relative proportion of the equity of the Corporation represented by the outstanding shares of each class and the conversion rights of the outstanding shares of each class, immediately prior to the transaction giving rise to an adjustment pursuant to this paragraph.

(d) Liquidation, Dissolution, Winding Up. Upon the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, subject to any preferential or other amounts to be distributed to the holders of the Preferred Stock and any other class or series of stock then outstanding, the holders of Class A Stock and Class B Stock shall be entitled to receive all the assets of the Corporation available for distribution to its stockholders ratably as a single class in proportion to the number of shares held by them.

(e) Conversion. (i) Each share of Class B Stock may at any time be converted by the record holder thereof into 1.075 fully paid and nonassessable shares of Class A Stock. The conversion right set forth immediately above shall be exercised by the surrender of the certificate representing such share or shares of Class B Stock to be converted to the Corporation at any time during normal business hours at the principal executive offices of the Corporation, or if an agent for the registration of transfer of shares of Class B Stock is then duly appointed and acting (said agent being hereinafter called the “Transfer Agent”), then at the office of the Transfer Agent, accompanied by a written notice of the election by the record holder thereof to convert and (if so required by the Corporation or the Transfer Agent) by instruments of transfer, in form satisfactory to the Corporation and to the Transfer Agent, duly executed by such holder or such holder’s duly authorized attorney, and together with any necessary transfer tax stamps or funds therefore, if required. As promptly as practicable after the surrender for conversion of a certificate or certificates representing shares of Class B Stock in the manner provided above, the Corporation will deliver or cause to be delivered at the office of the Transfer Agent to or upon the written order of the holder thereof, a certificate or certificates representing the number of full shares of Class A Stock issuable upon such conversion, issued in such name or names as such holder may direct. Fractional shares of Class A Stock will not be issued upon such a conversion and the Corporation shall instead pay or cause to be paid to the record holder thereof cash in an amount equal to the fair value of such fractional shares, as determined by the Corporation in its sole discretion. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of the certificates representing shares of Class B Stock, and all rights of the holder of such shares as such holder shall cease at such time and the person or persons in whose name or names the certificate or certificates representing the shares of Class A Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of Class A Stock at such time; provided, however, if any such surrender is made on any date when the stock transfer books of the Corporation shall be closed, the person or persons in whose name or names the certificate or certificates representing shares of Class A Stock are to be issued as the record holder or holders thereof shall be treated for all purposes as having become the record holder or holders of such shares immediately prior to the close of business on the next succeeding day on which such stock transfer books are open.

(ii) Effective immediately upon any transfer of a share of Class B Stock, other than a Permitted Transfer (as defined in Section 5.02(g)(iii) below), such transferred share of Class B Stock shall automatically be converted into 1.075 shares of Class A Stock, without any further action on the part of the Corporation, the transferor, the transferee or any other person or entity, and, upon such transfer, the certificate formerly representing the shares of Class B Stock transferred shall, to the extent of such transfer, represent instead the number of shares of Class A Stock equal to the product of the number of shares of Class B Stock it previously represented and 1.075, less any fractional share resulting therefrom, which shall be deemed cancelled.

(iii) No retroactive adjustments in respect of dividends or other distributions shall be made upon the conversion of any share of Class B Stock; provided, however, that if a share shall be converted subsequent to the record date for the payment of a dividend or other distribution on shares of Class B Stock, but prior to such payment, the registered holder of such share at the close of business on such record date shall be entitled to receive the dividend or other distribution payable (based on the number of shares of Class B Stock owned) on such share upon the date set for payment of such dividend or other distribution notwithstanding the conversion thereof or the Corporation’s default in payment of the

dividend or other distribution due on such date (provided, however, that if the applicable distribution is a share distribution then the type of security distributed in respect of such share shall be the type that would have been distributed had the conversion been made prior to such record date).

(iv) The Corporation will at all times reserve and keep available, solely for the purpose of issuance upon conversion of the outstanding shares of Class B Stock, such number of shares of Class A Stock as shall be issuable upon the conversion of all such outstanding shares; provided, however, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the conversion of the outstanding shares of Class B Stock by delivery of purchased shares of Class A Stock which are held in the treasury of the Corporation. All shares of Class A Stock which shall be issued upon conversion of the shares of Class B Stock will, upon issue, be fully paid and nonassessable and not subject to any preemptive rights.

(v) The issuance of certificates for shares of Class A Stock upon conversion of _____ shares of Class B Stock shall be made without charge for any stamp or other similar tax in respect of such issuance. However, if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class B Stock converted, the person or persons requesting the issuance thereof shall pay the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid.

(vi) If the Corporation registers the transfer of shares of Class B Stock in a transaction that is not a Permitted Transfer and issued a new certificate representing such shares to any person or entity, such person or entity (or any successive transferee of such certificate) shall surrender such new certificate for cancellation, accompanied by the written notice of conversion required by Section 5.02(e)(i) above, in which case (A) such person, entity or transferee shall be deemed to have elected to treat the endorsement on (or instrument of transfer accompanying) the certificate so delivered by such former record holder as authorizing such person, entity or transferee on behalf of such former record holder to convert such shares and to give such notice, (B) the shares of Class B Stock registered in the name of such former record holder shall be deemed to have been surrendered for conversion for the purpose of the transfer to such person, entity or transferee of the shares of Class A Stock issuable upon conversion and (C) the appropriate entries shall be made on the books of the Corporation to reflect such actions.

(vii) No one other than those holders in whose names shares of Class B Stock become registered on the original stock ledger of the Corporation by reason of their record ownership of Extencicare Inc. Multiple Voting Shares as of the Effective Time (such holders, the "Original Class B Holders"), or transferees or successive transferees who receive shares of Class B Stock in connection with a Permitted Transfer, shall, by virtue of the acquisition of a certificate for shares of Class B Stock, have the status of an owner or holder of shares of Class B Stock or be recognized as such by the Corporation or be otherwise entitled to enjoy for his or her own benefit the special rights and powers of a holder of shares of Class B Stock.

(f) Equivalent Consideration. In the event of any merger, consolidation, share exchange, reclassification of the outstanding shares of Class A Stock or Class B Stock or other reorganization to which the Corporation is a party, in which the shares of Class A Stock or Class B Stock will be exchanged for or converted into, or will receive a distribution of, cash or other property or securities of the Corporation or any other Person, each share of Common Stock shall be entitled to receive Equivalent Consideration (as defined herein) on a per share basis. As used herein, the term "Equivalent Consideration" shall mean consideration in the same form, in the same amount and, if applicable, with the same voting rights on a per share basis; provided, (i) that holders of Class B Stock will be entitled to receive consideration on a per share basis in excess of that received by holders of Class A Stock in an amount equal to the consideration received by holders of Class A Stock times 1.075 and (ii) that, in the event that securities of the Corporation (or any surviving entity or any direct or indirect parent of the surviving entity) are to be issued or paid with respect to shares of Class A Stock or Class B Stock in a Control Transaction, then such securities shall only be issued or paid on the basis of one class or series of securities with respect to shares of Class A Stock and another class or series of securities with respect to shares of Class B Stock, and such securities (and, if applicable, the securities into which such securities are convertible, or for which they are exchangeable, or which they evidence the right to purchase) shall differ with respect to, but solely with respect to, their relative voting rights and related differences in conversion and share distribution provisions, and all such differences shall be identical to the corresponding differences in voting rights, conversion and share distribution provisions in this Article V, between the Class A Stock and the Class B Stock, so as to preserve the relative voting rights of each Class as in effect immediately prior to such transaction. As used herein, the term "Control Transaction" shall mean any merger, consolidation, share exchange, reclassification or other reorganization to which the Corporation is a party in which the holders of Common Stock of the Corporation immediately prior to consummation of such transaction continue to hold at least a majority of the equity or Voting Power in the Corporation (or any surviving entity or any direct or indirect parent of the surviving entity) immediately after consummation of such transaction.

(g) Transfer Restrictions. Shares of Common Stock may be transferred only in accordance with the provisions of this Section 5.02(g).

(i) Shares of Class A Stock and, subject to Sections 5.02(g)(ii) and (iii) below, _____ shares of Class B Stock may be transferred by the record holder thereof to any other person or entity without any restriction imposed by these Amended and Restated Articles of Incorporation.

(ii) Shares of Class B Stock may not be Transferred except in a Permitted Transfer. A holder of shares of Class B Stock or a Person that indirectly Beneficially Owns shares of Class B Stock that desires to Transfer any of such interest therein, in a transaction that is not a Permitted Transfer, must first convert such shares of Class B Stock into _____ shares of Class A Stock pursuant to Section 5.02(e) above. In the event of a Transfer of Class B Stock in a transaction that is not a Permitted Transfer, each such Transferred share of Class B Stock shall automatically be converted into 1.075 shares of Class A Stock, as provided by Section 5.02(e)(ii) above.

(iii) Shares of Class B Stock may be Transferred without any restriction imposed by these Amended and Restated Articles of Incorporation (i) from Extencicare Health Services, Inc. to Extencicare Inc., (ii) from Extencicare Inc. to its shareholders pursuant to a Plan of Arrangement affecting Extencicare Inc. and its shareholders under the Canada Business Corporations Act, as approved by the Ontario Superior Court of Justice on October 24, 2006, and (iii) to an Eligible Transferee (each, a “Permitted Transfer”).

For purposes of Sections 5.02(g)(ii) and (iii):

(A) “Transfer” means a direct assignment, sale, transfer or divestiture (whether voluntary, conditional, contingent or otherwise) of Beneficial Ownership of shares of Class B Stock or the indirect assignment, sale, transfer or divestiture (whether voluntary, conditional, contingent or otherwise) of Beneficial Ownership of shares of Class B Stock in any manner including by way of a merger, consolidation, corporate reorganization, share exchange, recapitalization or issuance of shares or the transfer of securities of an entity that has a direct or indirect interest in the shares of Class B Stock which as a consequence thereof there has been a change of Beneficial Ownership in such shares. A change in Beneficial Ownership of shares of Class B Stock shall not be deemed to have occurred, and therefore no Transfer will have occurred, where after, or as a result of, any transaction, the shares of Class B Stock involved are or remain Beneficially Owned directly or indirectly by an Eligible Transferee. Transfer shall not mean the granting of any security interest in the shares of Class B Stock or the securities of an entity that directly or indirectly Beneficially Owns the shares of Class B Stock provided however any realization of such security interest shall be a Transfer unless such security interest is held by an Eligible Transferee. “Transferred” has the corresponding meaning.

(B) “Eligible Transferee” means: (i) in the case of an individual, an individual who is a Family Member; (ii) in the case of a corporation, a corporation a majority of the voting common shares of which are Beneficially Owned directly or indirectly by or for the benefit of Family Members; (iii) in the case of a trust, a trust in which a majority in interest of the beneficiaries are Family Members; (iv) in the case of a partnership, a partnership of which a majority of the partners are Family Members; (v) a person or entity which is a voting common equity security holder of an entity that Beneficially Owned shares of Class B Stock on the Effective Date where the person or entity acquires the shares of Class B Stock from such entity, or an entity which is majority owned by the Beneficial Owner of shares of Class B Stock where the entity acquires the Class B Stock from such Beneficial Owner.

(C) “Family Member” means the descendants and their spouses, including former and surviving spouses, of one of the following clauses: (i) R.A. Jodrey or (ii) C.F.W. Burns or (iii) an individual who on the Effective Date is either a registered holder of shares of Class B Stock or a Beneficial Owner of shares of Class B Stock and in each case the executors, administrators, trustees or legal representatives of such individual’s estate. For greater certainty, a Family Member described in clauses (i), (ii) or (iii) of this clause (C) may only Transfer to another Family Member described in the same clause.

(D) “Beneficial Ownership” has the meaning under Rule 13d-3 of the Securities Exchange Act of 1934 and “Beneficially Owned” or “Beneficially Owns” has a corresponding meaning.

(E) “Effective Date” means November 10, 2006, which was the first date on which the shares of Class A Stock were listed on the New York Stock Exchange.

(iv) Shares of Common Stock shall be transferred on the books of the Corporation and a new certificate therefore issued, upon presentation at the office of the Secretary of the Corporation or the Transfer Agent (or at such additional place or places as may from time to time be designated by the Secretary or any Assistant Secretary of the Corporation) of the certificate for such shares, in proper form for transfer, and accompanied by all requisite stock transfer tax stamps and, with respect to a transfer of shares of Class B Stock, an affidavit setting forth sufficient facts to establish to the Corporation's reasonable satisfaction that such transfer is a Permitted Transfer. Any such affidavit shall be executed by the record holder thereof (or, with respect to a Permitted Transfer described in Section 5.02(g)(iii), by such successor in interest), and verified as of a date not earlier than five days prior to the date of delivery thereof (where such record holder is a corporation, partnership, limited liability company or trust, such verification shall be by an officer of the corporation, a general partner of the partnership, a manager or officer of the limited liability company or a trustee of the trust, as the case may be).

(v) Every certificate representing shares of Class B Stock shall bear a legend on the reverse thereof reading as follows:

"The shares of Class B Common Stock represented by this certificate may not be transferred to any person or entity in connection with a transaction that is not a "Permitted Transfer," as such term is defined in Section 5.02(g) of ARTICLE V of the Amended and Restated Articles of Incorporation of this Corporation. No person or entity who receives such shares in connection with a transfer (other than such a "Permitted Transfer") is entitled to own or to be registered as the record holder of such shares of Class B Common Stock, but the record holder of this certificate may at such time and in the manner set forth in Section 5.02(e)(i) of ARTICLE V of the Amended and Restated Articles of Incorporation convert such shares of Class B Common Stock into 1.075 shares of Class A Common Stock for purposes of effecting the sale or other disposition of such shares of Class A Common Stock to any person or entity. Each holder of this certificate, by accepting the same, accepts and agrees to all of the foregoing."

(vi) In the event that the Board of the Corporation (or any committee of the Board, or any officer of the Corporation, designated for the purpose by the Board) shall determine, upon the basis of facts not disclosed in any affidavit or other document accompanying the certificate for shares of Class B Stock when presented for transfer, that such shares of Class B Stock have been registered in violation of the provisions of this Section 5.02(g), or shall determine that a person or entity is enjoying for his, her or its own benefit the special rights and powers of shares of Class B Stock in violation of such provisions, then the Corporation shall take such action at law or in equity as is appropriate under the circumstances.

(h) In connection with any conversion of shares of Class B Stock into shares of Class A Stock pursuant to Section 5.02(e) (whether optional or automatic), any transfer of shares of Common Stock pursuant to Section 5.02(g), or the making of any determination required by such Section 5.02(e) or Section 5.02(g):

(i) the Corporation shall be under no obligation to make any investigation of facts unless an officer, employee or agent of the Corporation responsible for issuing shares of Class A Stock upon such conversion, for registering such transfer or for making such determination has substantial reason to believe, or unless the Board (or a committee of the Board designated for the purpose) determines that there is substantial reason to believe, that any affidavit or other document executed in connection therewith is incomplete or incorrect in any material respect or that an investigation into the facts relating thereto is otherwise warranted, in either of which events the Corporation shall make or cause to be made such investigation as it may deem necessary or desirable in the circumstances and have a reasonable time to complete such investigation; and

(ii) to the fullest extent permitted by law, neither the Corporation, nor any director, officer, employee or agent of the Corporation shall be liable in any manner for any action taken or omitted to be taken.

(i) The Class A Stock and the Class B Stock are subject to all the powers, rights, privileges, preferences and priorities of any series of Preferred Stock as shall be stated and expressed in any resolution or resolutions adopted by the Board, pursuant to authority expressly granted to and vested in it by the provisions of this Article V.

SECTION 5.03. Preferred Stock. Subject to Section 5.04(c) of this Article V, the Board is hereby expressly authorized, by resolution or resolutions, to provide, out of the unissued shares of Preferred Stock, for series of Preferred Stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

SECTION 5.04. Stockholder Voting. (a) Except as otherwise provided in these Amended and Restated Articles of

Incorporation or required by law, with respect to all matters upon which stockholders are entitled to vote or to which stockholders are entitled to give consent, the holders of any outstanding shares of Class A Stock and the holders of any outstanding shares of Class B Stock shall vote together without regard to class, and every holder of the outstanding shares of Class A Stock shall be entitled to cast thereon one (1) vote in person or by proxy for each share of Class A Stock standing in such holder's name and every holder of the outstanding shares of Class B Stock shall be entitled to cast thereon ten (10) votes in person or by proxy for each share of Class B Stock standing in such holder's name.

(b) In addition to any other vote required hereunder or by applicable law, the affirmative vote of the holders of a majority of the Voting Power of all outstanding shares of Class A Stock, voting separately as a class, shall be required for any amendment, alteration, change or repeal of Sections 5.02(a), (b), (c), (d), (e), (f) or (i) of Article V, other than any amendment to Section 5.02(f) that is approved by the requisite vote of the holders of Class B Stock and provides for holders of Class B Stock to be offered or paid securities in a Control Transaction that either have lesser voting rights than the shares of Class B Stock or that do not differ in any respect from the securities to be offered or paid with respect to shares of Class A Stock and does not otherwise affect the consideration to be offered or paid with respect to shares of Class A Stock.

(c) For so long as shares of Class B Stock are outstanding, and notwithstanding anything herein to the contrary, in addition to any other vote required hereunder or by applicable law, the affirmative vote of the holders of a majority of the Voting Power of all outstanding shares of Class B Stock, voting separately as a class, shall be required (i) for the authorization or issuance by the Corporation of shares of Class B Stock (other than pursuant to any dividend or other distribution payable in shares of Class B Stock pursuant to Section 5.02(b)(ii)(A) of this Article V) or the authorization or issuance by the Corporation of any securities convertible into or exchangeable for shares of Class B Stock, or options, warrants or other rights to acquire shares of Class B Stock or any securities convertible into or exchangeable for shares of Class B Stock, (ii) for the authorization or issuance by the Corporation of shares of any series or class of capital stock (other than Class A Stock or Class B Stock) having more than one vote per share or having any right to elect directors voting as a separate class or any class voting or consent rights, in each case other than as required by applicable law or the rules or regulations of any stock exchange upon which such series or class of capital stock is to be listed for trading ("Special Vote Stock"), or securities convertible into or exchangeable for shares of Special Vote Stock, or options, warrants or other rights to acquire shares of Special Vote Stock or any securities convertible into or exchangeable for shares of Special Vote Stock and (iii) for any amendment, alteration, change or repeal of any provision of these Amended and Restated Articles of Incorporation setting forth any of the rights, powers or preferences of the Class A Stock or Class B Stock (including Section 5.02 of this Article V).

ARTICLE VI

BOARD OF DIRECTORS

SECTION 6.01. Board of Directors. The business and affairs of the Corporation shall be managed by or under the direction of the Board, the exact number of directors comprising the entire Board to be not less than 3 nor more than 17 (subject to any rights of the holders of Preferred Stock to elect additional directors under specified circumstances) as determined from time to time by resolution adopted by affirmative vote of a majority of the entire Board. As used in these Amended and Restated Articles of Incorporation, the term "entire Board" means the total number of directors that the Corporation would have if there were no vacancies or unfilled newly created directorships. Directors shall be elected at each annual meeting of stockholders, and each director elected shall hold office until such director's successor has been elected and qualified, subject, however, to earlier death, resignation or removal from office. In the interim between elections of directors by stockholders entitled to vote, all vacancies (including vacancies caused by an increase in the number of directors or resulting from the removal of directors by the stockholders entitled to vote) shall be filled by the remaining directors, though less than a quorum.

SECTION 6.02. Advance Notice of Nominations. Advance notice of nominations for the election of directors shall be given in the manner and to the extent provided in the Bylaws.

SECTION 6.03. Limitation on Personal Liability. (a) The personal liability of the directors and officers of the Corporation is hereby eliminated to the fullest extent permitted by the NCL.

(b) The Corporation shall, to the fullest extent permitted by the NCL, indemnify and hold harmless its directors, officers, employees and agents under said law from and against any and all of the expenses, liabilities or other matters referred to in or covered by said law, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, insurance, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

ARTICLE VII

BYLAWS

In furtherance and not in limitation of the powers conferred by law, the Board is expressly authorized and empowered to adopt, amend and repeal the Bylaws of the Corporation at any regular or special meeting of the Board or by written consent, subject to the power of the stockholders of the Corporation to adopt, amend or repeal any Bylaws. Notwithstanding any other provision of these Articles of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any series of Preferred Stock required by law, by these Articles of Incorporation or by a certificate of designations, the affirmative vote of the holders of a majority of the total voting power of the Voting Stock, voting together as a single class, shall be required for the stockholders of the Corporation (but, for clarity, such approval shall not be required with respect to alternatives, amendments or repeals by the Board) to alter, amend or repeal any provision of the Bylaws, or to adopt any new Bylaw; provided, however, that at least 80% of the total voting power of the Voting Stock, voting together as a single class, shall be required for the stockholders of the Corporation to alter, amend or repeal, or adopt any Bylaw inconsistent with, the following provisions of the Bylaws: Sections 2, 3, 4, 5, 6, and 7 of Article II; Sections 1, 2 and 5 of Article III; Article VIII and Section 1(b) of Article IX, or, in each case, any successor provision (including, without limitation, any such article or section as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Bylaw).

ARTICLE VIII

STOCKHOLDER MATTERS

SECTION 8.01. Meetings of Stockholders. Meetings of stockholders may be held within or without the State of Nevada, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the NCL) outside the State of Nevada at such place or places as may be designated from time to time by the Board or in the Bylaws of the Corporation.

SECTION 8.02. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called only at the request in writing of a majority of the Board.

SECTION 8.03. Action by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders, unless such consent is unanimous.

SECTION 8.04. Advance Notice Requirements. Advance notice of any stockholder proposal for action to be taken at an annual or special meeting of stockholders shall be given in the manner and to the extent provided in the Bylaws.

ARTICLE IX

CERTAIN NEVADA LAW PROVISIONS

SECTION 9.01. Business Combination Provisions. The Corporation hereby expressly elects not to be governed by Section 411 to Section 444 of the NCL (NRS 78.411 to 78.444), inclusive, or any successor provisions thereto.

SECTION 9.02. Control Share Provisions. The provisions of Section 378 to 3793 of the NCL (NRS 78.378 to 78.3793), or any successor provisions thereto, shall not apply to the Corporation or to any acquisition of a controlling interest by any current or future holder of Common Stock or Preferred Stock of the Corporation.

ARTICLE X

AMENDMENTS

The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation or the Bylaws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, these Amended and Restated Articles of Incorporation or the Bylaws of the Corporation), the affirmative vote of the holders of 80% or more of the Voting Power of the outstanding Voting Stock shall be required to amend, alter, change or repeal Section 6.02 of Article VI, Article VII, Article VIII or this Article X.

ARTICLE XI

CERTAIN PRE-SEPARATION AGREEMENTS

No contract, agreement, arrangement or transaction (or any amendment, modification or termination thereof) entered into between the Corporation or any of its Subsidiaries, on the one hand, and Extencicare Inc. (or any successor thereto) or any of its Subsidiaries, on the other hand, before the Corporation ceased to be a Subsidiary of Extencicare Inc. or the subsequent performance thereof by the Corporation or any of its Subsidiaries shall be void or voidable or be considered unfair to the Corporation or any of its Subsidiaries for the reason that Extencicare Inc. (or any successor thereto) is a party thereto, or because any officer, director or employee of Extencicare Inc. (or any successor thereto) is a party thereto, or because any officer, director or employee of Extencicare Inc. (or any successor thereto) was present at or participated in any meeting of the Board, or committee thereof, of the Corporation, or the board of directors, or committee thereof, of a Subsidiary of the Corporation, that authorized the contract, agreement, arrangement or transaction (or any amendment, modification or termination thereof), or because his, her or their votes were counted for such purpose. No such contract, agreement, arrangement or transaction (or the amendment, modification or termination thereof) or the subsequent performance thereof by the Corporation or any of its Subsidiaries shall be considered to be contrary to any fiduciary duty owed to the Corporation or any Subsidiary of the Corporation or to any of their respective stockholders by Extencicare Inc. (or any successor thereto) or any of its Subsidiaries or by any of their officers, directors or employees (including any officer, director or employee of the Corporation who may have been an officer, director or employee of Extencicare Inc. or its Subsidiaries) and each such officer, director or employee shall be deemed to have acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and its Subsidiaries, and shall be deemed not to have breached his or her duties of loyalty to the Corporation or its Subsidiaries and their respective stockholders, and not to have derived an improper personal benefit therefrom. No officer, director or employee of the Corporation or its Subsidiaries shall have or be under any fiduciary duty to the Corporation or its Subsidiaries or its stockholders to refrain from acting on behalf of any such Corporation or Subsidiary in respect of any such contract, agreement, arrangement or transaction (or the amendment, modification, or termination thereof) or to refrain from performing any such contract, agreement, arrangement or transaction (or the amendment, modification or termination thereof) in accordance with its terms.

CERTIFICATION

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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 report based on such evaluation; and
 - d) 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 fiscal 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 8, 2008

CERTIFICATION

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. (“the 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 fiscal 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 8, 2008

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the filing of the Quarterly Report of Assisted Living Concepts, Inc. (the “registrant”) on Form 10-Q for the quarter ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “report”), we, Laurie A. Bebo and John Buono, Chief Executive Officer and Chief Financial Officer, respectively, of the registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to our 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 registrant.

/s/ Laurie A. Bebo

Laurie A. Bebo
Chief Executive Officer
May 8, 2008

/s/ John Buono

John Buono
Chief Financial Officer
May 8, 2008