

ASSISTED LIVING CONCEPTS, INC.

CORPORATE GOVERNANCE GUIDELINES

(Adopted February 27, 2007; amended and restated December 16, 2008)

Assisted Living Concepts, Inc. (“ALC”) believes that good corporate governance is good business. As providers of assisted living services, we are particularly aware of the value of trust and transparency. That is why ALC is committed to the principles of disclosure and a strong, independent Board.

I. Role and Responsibility of the Board

The Board is responsible for the stewardship of ALC, including:

- reviewing and monitoring performance of ALC’s business and its operating, financial and other corporate plans, strategies and objectives, and changing plans, strategies and objectives as appropriate;
- mandating policies of ethical behavior and integrity by officers and employees in all aspects of ALC's business and monitoring compliance with those policies;
- understanding ALC’s risk profile and monitoring its risk management programs;
- reviewing and monitoring ALC’s disclosure, internal control and management information systems;
- establishing goals, evaluating performance, and determining the compensation for the chief executive officer and other senior executives;
- developing succession plans for senior management; and
- evaluating the procedures, operation, composition and overall effectiveness of the Board and its committees.

The Board is responsible for overseeing the conduct of ALC’s business and for supervising management which is responsible for the day-to-day conduct of the business and the implementation of Board strategies and policies. The Board’s fundamental objectives are to enhance and preserve long-term stockholder value so that ALC operates in a reliable and safe manner in the best interests of the Corporation and its stockholders. In performing its functions, the Board considers the legitimate interests of its stakeholders such as stockholders, employees, customers and the communities in which it does business. In supervising the conduct of the business, the Board, through the Chief Executive Officer (CEO) and through its Code of Business Conduct, sets the standards of conduct for the enterprise.

The Board fulfills these responsibilities by: adopting long-term strategies; understanding and monitoring ALC’s business, industry conditions, and related ALC and related industry risks; overseeing the performance of management; and ensuring that appropriate processes and controls are in place to promote compliance with applicable laws and the highest standards of business ethics. To fulfill this role, all directors are

expected to exercise their business judgment and to act with loyalty and in what each director reasonably believes to be in the best interests of ALC and its stockholders.

(a) Stewardship. ALC's Board oversees ALC's management, reviews and approves long-term corporate strategy, and ensures that management works to enhance stockholder value in a way that is consistent with good corporate citizenship.

(b) Effectiveness. All directors are expected to maintain a good attendance record and to familiarize themselves with the materials distributed prior to each Board meeting.

(d) Accountability. The Board operates under a Code of Business Conduct that addresses conflicts of interest, confidentiality, protection of ALC assets, fair dealing, and compliance with laws, rules and regulations.

II. Board Structure

(a) Board Size. ALC's Articles of Incorporation prescribe that there be no less than three and no more than 17 directors. The Board may adjust the number of directors within this range from time to time upon the recommendation of the Compensation/Nomination/Governance Committee. The Committee periodically reviews the size of the Board for the purpose of making such recommendations.

(b) Director Term. Directors are elected annually and serve one year terms.

(c) Limits on Other Board Memberships. Directors and officers are expected to devote adequate time and attention to ALC's business and affairs and to ensure that other existing and planned future commitments do not interfere with their service as a director or officer. Directors are expected to advise the Chairman in advance of accepting an invitation to serve on another public company board and officers must get the approval of the Chairman before agreeing to serve on the board of directors of another company.

(d) Director Independence. A majority of the directors shall be independent. No director is considered to be "independent" unless the Board affirmatively determines that the director (i) has no material relationship with ALC (either directly or as a partner, stockholder or officer of an organization that has a relationship with ALC) and (ii) otherwise meets the independence requirements set forth in the Securities Exchange Act of 1934 and rules adopted by the Securities and Exchange Commission and the corporate governance listing standards of the New York Stock Exchange.

The Board has established the following guidelines to assist in determining director independence:

(i) An ALC director who is an employee, or whose immediate family member is an executive officer, of ALC is not independent until three years after the end of the employment relationship.

(ii) An ALC director who receives, or whose immediate family member receives (other than in a non-executive officer employee capacity), more than \$120,000 per year in direct compensation from ALC (other than director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service)), is not independent until three years after he or she ceases to receive more than \$120,000 per year in such compensation.

(iii) An ALC director who is affiliated with or employed by a present or former internal or external auditor of ALC or whose immediate family member either is or was a partner or is or was an employee of such firm who personally worked on ALC's audit is not independent until three years after the end of the affiliation or the employment or auditing relationship.

(iv) An ALC director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of ALC's present executives serve on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

(v) An ALC director who is currently an executive officer or an employee, or whose immediate family member is currently an executive officer, of a company that makes payments to or receives payments from, ALC for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or two percent of the other company's consolidated gross revenue, is not independent until three years after falling below such threshold.

The Compensation/Nomination/Governance Committee reviews any relationship between a director and ALC which might compromise the designation of the director as being independent or unrelated to ALC. The objective of such review is to determine the existence of any relationships, to ensure that the composition of the Board remains such that a majority of the directors are independent and unrelated, and that, where relationships exist, the director is acting appropriately. Directors are expected to bring to the attention of the Compensation/Nomination/Governance Committee any potential conflicts of interest as they arise.

(e) Audit Committee Membership Requirements. In addition to being "independent," members of ALC's Audit Committee also must meet the requirements of Rule 10A-3 of the Securities Exchange Act of 1934. As such, they may not (i) directly or indirectly accept any consulting, advisory or other compensatory fee from ALC (other than normal Board and Committee fees and retirement or deferred compensation payments) or (ii) be an affiliated person of ALC (as defined in Rule 10A-3).

(f) Compensation/Nomination/Governance Committee Membership Requirements. In addition to being “independent” under NYSE rules, each member of ALC’s Compensation/Nomination/Governance Committee must be (i) a “non-employee director” within the meaning of Rule 16b-3 promulgated under the Securities Act of 1934 and (ii) an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code.

(g) Executive Sessions of Independent Directors. The independent directors will meet regularly in executive session. The Chairman shall preside at such executive sessions and advise the Secretary of any information that needs to be documented in the records of the Company.

III. Committee Composition and Function

The Board maintains standing Audit, Compensation/Nomination/Governance, and Executive committees and may establish such other committees as it may deem desirable from time to time. The Compensation/Nomination/Governance Committee makes recommendations to the Board regarding the membership and chairpersons of committees. The members and chairpersons are elected by the Board after considering the recommendations of the Compensation/Nomination/Governance Committee. Consideration is given to rotating committee members and chairpersons periodically but is not mandatory. The members of each of the standing committees have the opportunity at each regularly scheduled meeting to meet separately, without management. Each standing committee performs an annual evaluation of the committee’s performance and reports the results of that evaluation to the Board.

IV. Director Selection; Qualifications; Evaluation

(a) Director Selection Process. The Compensation/Nomination/Governance Committee shall identify, consider and, upon consultation with the Chairman of the Board, nominate candidates annually to serve as directors and to fill new positions created by expansions or vacancies that occur. Final approval of a candidate shall be determined by the full Board. The Committee will consider director candidates timely submitted by ALC stockholders in accordance with ALC’s bylaws, and will apply the same criteria to the evaluation of those candidates as the Committee applies to other director candidates. Stockholders may propose nominees for consideration by the Committee by submitting the names and supporting information to: Corporate Secretary, Assisted Living Concepts, Inc., W140 N8981 Lilly Road, Menomonee Falls, Wisconsin 53051.

(b) Director Qualifications. The Compensation/Nomination/Governance Committee will assess a candidate’s independence, as well as the candidate’s background and experience and the current Board’s composition. ALC endeavors to have a Board representing diverse experience at policy-making levels in areas that are relevant to ALC’s business. With respect to incumbent directors selected for reelection, the

Committee also will assess the director's contributions, attendance record, and the suitability of continued service. In addition, individual directors and any person nominated to serve as a director must possess the following minimum qualifications and devote an adequate amount of time to the effective performance of director duties:

- (i) Integrity. – Directors should demonstrate high ethical standards and integrity in their personal and professional dealings and be willing to act on their decisions.
 - (ii) Informed Judgment. – Directors should take care that they are fully informed and that they act at all times in a prudent, timely and reasonable manner.
 - (iii) Financial Literacy. – Directors should be financially literate. They should know how to read a balance sheet, income statement and cash flow statement and understand the use of financial ratios and other indices for evaluating ALC's performance.
 - (iv) Cooperative Approach. – Directors should approach each other assertively, responsibly and supportively and raise difficult questions in a manner that encourages open discussion.
 - (v) Record of Achievement. – Directors should have a record of attainment that reflects high standards for themselves and others and should have background and experience that adds value to the skill set of the Board as a whole.
 - (vi) Loyalty. – Directors must not have any undisclosed conflicts of interest with ALC and must act in good faith and consistent with their duties of due care, loyalty, and candor.
 - (vii) Independent Oversight. – Directors must act at all times with the cooperative independence of thought and action and with the leadership skills needed to fulfill their oversight responsibilities.
- (c) Performance Evaluation of the Board and Board Committees. The Compensation/Nomination/Governance Committee will annually assess the Board's performance and report to the Board regarding the results of its assessment. In addition, each other standing committee will annually assess its own performance and report to the Board regarding the results of those assessments.

The Board evaluation will include an assessment of the Board's collective skills, backgrounds, experiences and other factors necessary to meet ALC's continuing needs. This assessment should be of the Board's contribution as a whole and should specifically review areas in which the directors and/or management believes a better contribution could be made.

(d) Continuing Education; New Director Orientation. The Board supports continuing education for directors. ALC will reimburse directors for costs incurred in attending director continuing education programs.

The Chief Legal Officer and the Chief Financial Officer shall be responsible for providing an orientation program for new directors. Orientation shall include personal briefing by senior management on ALC's strategic plans, its financial statements and its key policies and procedures. ALC will reimburse directors for reasonable costs incurred attending orientation sessions.

V. Planning and Oversight Functions

(a) Management Succession Planning; CEO Evaluation. The Compensation/Nomination/Governance Committee works with the CEO so that ALC is in a position to identify a successor CEO for emergencies and that a process governs long-term management development and succession. The CEO shall report to the Committee annually about the development of senior management personnel and succession plans, which plans shall be subject to the review and approval of the Committee.

The Compensation/Nomination/Governance Committee is responsible for reviewing and approving the annual and longer-term goals and objectives for compensating the CEO and for evaluating the CEO's performance against those goals and objectives. The Committee will report to the Board regarding the results of the CEO performance evaluation. The Board will review that report to assess whether the CEO is providing effective leadership under the circumstances for ALC in the long- and short-term.

(b) Access to Management. All directors have open access to ALC senior management. It is expected that directors will exercise judgment to ensure that such contact does not unnecessarily distract management from ALC's business operations.

The Board encourages the Chairman to invite those managers to Board meetings who are capable of providing the Board with specific insight to a topic of discussion due to personal involvement and to allow managers with future potential to be given exposure to the Board.

(c) External Advisors. If, in order to properly discharge its functions, duties and responsibilities, it is necessary or appropriate, in the opinion of the Board that it obtain the advice and counsel of external advisors, the Board may engage the necessary advisors.

(d) Board Approvals; Strategic Planning. The Board expects that management will seek to enhance stockholder value in a manner that is consistent with good citizenship, including fair treatment of ALC employees and the provision of quality

service to its residents. Management is authorized to act, without Board approval, on all ordinary course matters relating to ALC's business.

All material, out of the ordinary course matters relating to ALC and its business require prior approval of the Board. In addition to those matters that must by law be approved by the Board, management is required to seek Board approval for: (i) acquisitions or divestitures of assisted living residences and similar or related properties; (ii) any single or series of capital expenditures (a) in excess of \$250,000 or (b) which exceed approved budgeted amounts by the greater of \$100,000 or 5% (Board approval is also required whenever items referred to in (ii)(a) and (ii)(b) exceed \$500,000 in the aggregate); (iii) matters which would reasonably be expected to cause a breach of a financial covenant; (iv) waiver requests under credit facilities; (v) partnerships and joint ventures; and (vi) changes in or departures from ALC's long-term strategic plans as presented to and approved by the Board.

Management is responsible for the development of long-term corporate strategy, while the role of the Board is to review, question and analyze, and ultimately to approve, the strategies proposed by management.

(e) Oversight of Risk. The Board has overall responsibility for approving procedures for the identification, assessment and management of the principal risks facing ALC, including material legal and regulatory matters relating to ALC. The Audit Committee is responsible for reviewing independently with each of management and the auditors the impact of significant risks that may be material to financial reporting.

(f) Internal Control and Management Information Systems. The CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for ALC in compliance with U.S. securities laws. The Board is responsible for reviewing and monitoring ALC's disclosure, internal control, and management information systems. The Audit Committee is responsible for adopting appropriate monitoring procedures.

VI. Compensation of Directors

(a) Director Compensation. The Compensation/Nomination/Governance Committee recommends to the Board the form and amount of compensation for directors. The Committee will periodically review the principles underlying director compensation and make recommendations to the Board when necessary or appropriate.

(b) Stock Ownership by Directors. Directors should acquire and maintain ownership of ALC common stock equivalent to one year's annual retainer within five years of election to the Board.

VII. Director Retirement

(a) Retirement Age; Term Limits. The Board does not set retirement ages or term limits, instead preferring to use annual evaluation and election procedures as the primary methods of ensuring that each director continues to act in a manner consistent with the best interests of ALC and its stockholders.

(b) Director Change in Employment. A director who has a change in employment is expected to offer a letter of resignation to the Chairman of the Board. The Compensation/Nomination/Governance Committee will consider whether to recommend that the Board accept or reject the resignation. In addition, directors are expected to inform the Chairman of the Compensation/Nomination/Governance Committee of any other changed circumstances affecting participation on the Board to provide an opportunity for the Committee to review the appropriateness of continued Board membership under the changed circumstances. If the Committee determines continued membership would not be appropriate, the director is expected to resign from the Board.

VIII. Meeting Procedures

(a) Selection of Agenda Items. The Chairman of the Board, in consultation with senior management, will establish agendas for each Board and committee meeting. Agendas will be distributed to Board and committee members before each meeting and each member is free to suggest additions to agendas in advance of the meeting.

(b) Board Materials Distributed in Advance. Whenever practicable, information that is important to the director's understanding of the business of a Board or committee meeting will be distributed in writing to Board and committee members sufficiently in advance of the meeting to allow directors to properly review and understand such information.

(c) Presentations. As a general rule, materials supporting presentations on specific subjects are to be sent to directors in advance so that Board and committee meeting time may be conserved and discussion time focused on questions that directors have about the materials. It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it may not be prudent or appropriate to distribute written materials in advance.

IX. Communications Policy

(a) Communications to Stockholders, the Investing Public, and Others. The Board approves the content of ALC's material communications to stockholders and the investing public, including the annual report, proxy statement, quarterly reports and any prospectuses which may be used. The Audit Committee reviews and recommends for approval by the Board the quarterly and annual financial statements (including Management's Discussion and Analysis), press releases relating to financial matters, and any other financial information contained in material disclosure documents.

The Board believes that it is the function of management to speak for ALC in communications with the investment community, the media, customers, suppliers, employees, governments, and the general public. Generally, communications from stockholders and the investment community will be directed to the CEO, Chief Financial Officer or Corporate Secretary to provide an appropriate response depending on the nature of the communication. It is expected that, if communications from stakeholders are made to the Chairman or to other individual directors, the Chairman (in the case of communications to other directors) and the CEO will be informed and consulted to determine any appropriate response. Stockholders wishing to communicate with directors may direct their communications to: Assisted Living Concepts, Inc. Board of Directors, c/o Corporate Secretary, Assisted Living Concepts, Inc., W140 N8981 Lilly Road, Menomonee Falls, Wisconsin 53051.

(b) Disclosure Policy. The Board is responsible for reviewing ALC's policies and practices with respect to disclosure of financial and other information, including insider reporting and trading. The Board will approve and monitor the disclosure policies designed to assist ALC in meeting its objective of providing timely, consistent and materially accurate dissemination of information consistent with disclosure requirements under applicable securities law. Directors are expected to comply with ALC's Disclosure Policy.

(c) Director Attendance at Annual Stockholder Meetings. Each director and nominee is required to attend ALC's annual stockholder meeting, unless attendance at any such meeting is not feasible due to unavoidable circumstances.

X. Corporate Ethics

(a) Code of Business Conduct. The Board believes an appropriate "tone at the top" is necessary to ensure that all ALC employees remain committed to the principles of integrity, honesty, loyalty and due care in the performance of their duties. Accordingly, all directors and officers, as well as employees, are expected to act ethically and legally at all times and to adhere, and encourage others to adhere, to ALC's Code of Business Conduct.

(b) Loans to Directors and Executive Officers. Subject to limited exceptions permitted by law, ALC will not directly or indirectly grant or arrange for loans to directors or executive officers.

(c) Conflicts of Interest. If an actual or potential conflict of interest develops because of a change in the business operations of ALC or a subsidiary, or in a director's circumstances (for example, significant and ongoing competition between ALC and a business with which the director is affiliated), the director is expected to report the matter immediately to the Chairman of the Compensation/Nomination/Governance Committee for evaluation and appropriate resolution.

(d) Related Party Transactions. The Board recognizes that a related party transaction (generally, a transaction between ALC and another person or entity where either an officer, director or significant stockholder of ALC (or one of their immediate family members) has a direct or indirect material interest in the transaction) may raise questions among stockholders as to whether those transactions are consistent with the best interests of ALC and its stockholders. It is ALC's policy to enter into or ratify a related party transaction only when the Board, acting through the Audit Committee, determines that the transaction in question is in, or is not inconsistent with, the best interests of ALC and its stockholders. If a director has a personal interest in a matter before the Board, the director is required to disclose the interest to the full Board, remove him or herself from the meeting during the discussion, and not vote on the matter.

(e) Charitable Contributions. Proposed charitable contributions, or pledges of charitable contributions, by ALC within any given fiscal year in an aggregate amount of \$50,000 or more, to an entity for which an ALC director or a member of any of their immediate families serves as a director, officer, employee, or member of such entity's fund-raising organization or committee, shall be subject to prior review and approval by the Compensation/Nomination/Governance Committee.

(f) Equity-Based Compensation Grant Policy. It is the policy of the Board that no director or member of ALC management shall backdate any equity award or manipulate the timing of any equity award or of the public release of material information with the intent of benefiting a grantee under an equity award.

XI. Responsibility for Corporate Governance Guidelines

The Board, through the Compensation/Nomination/Governance Committee, is responsible for developing ALC's approach to corporate governance. The Committee oversees issues of corporate governance and recommends amendments to these Corporate Governance Guidelines to the Board where appropriate.

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