

**UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS**

LOIS KATZIFF, et al.)	Civil Action No 07-11456-NMG
)	
Plaintiffs,)	
)	
v.)	
)	
BEVERLY ENTERPRISES, INC., et al.)	
)	
Defendants/Third Party)	
Plaintiffs,)	
)	
v.)	
)	
DIVERSIFIED INVESTMENT ADVISORS and STEPHENS INC.,)	
)	
Third Party Defendants)	
)	

NOTICE OF PROPOSED CLASS ACTION SETTLEMENT

TO ALL PERSONS WHO WERE PARTICIPANTS OR BENEFICIARIES OF THE BEVERLY ENTERPRISES, INC. 401(K) SAVINGSPLUS PLAN, NOW KNOWN AS GOLDEN LIVING 401(K) SAVINGSPLUS PLAN (THE "PLAN") DURING THE PERIOD FROM JANUARY 1, 1996 TO THE PRESENT:

**A FEDERAL COURT APPROVED THIS NOTICE.
PLEASE READ IT CAREFULLY.
THIS IS NOT A SOLICITATION FROM A LAWYER.
YOU ARE NOT BEING SUED.**

This Notice ("Notice") advises you of a proposed class action settlement (the "Settlement"). If you are one of the persons described above, you are a class member, and this settlement affects your rights. The Settlement will provide a payment of \$6.25 million, less attorney fees, attorney costs and expenses, in payments to the named class representatives, taxes, administrative costs and any other costs and expenses as provided in the Stipulation and Settlement Agreement ("Agreement"), the remainder of which is the "Net Proceeds." Net Proceeds is the net amount available to the class, and will be distributed to the Beverly Enterprises 401(k) SavingsPlus Plan ("Plan") for allocation to the accounts of members of the class. The Settlement will resolve a lawsuit over whether the alleged fiduciaries of the Plan breached their fiduciary duties by allegedly violating the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

This Notice describes the Settlement and your options. Your rights will be affected whether you act or not, so please read this Notice carefully.

BASIC INFORMATION

1. Why did I get this notice package?

You or someone in your family was a participant in, or beneficiary of the Plan during the period from January 1, 1996 to the present.

You were sent this Notice because you have the right to know about a proposed settlement of a class action lawsuit and about your options, before the Court decides whether to approve the Settlement. If the Court approves the Settlement, and after objections and appeals, if any, are resolved, the Plan Administrator or its designee will distribute the benefits that are provided in the Settlement.

This package explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of this case is the United States District Court of Massachusetts, and the case is known as *Katziff, et al. v. Beverly Enterprises Inc., et al.*, Case No. 07-11456-NMG. The people who sued are called Plaintiffs and the people or entities they sued are called Defendants. The Plaintiffs who brought this suit are persons who participated in or were beneficiaries of the Plan during the Class Period, and the Defendants are Beverly Enterprises, Inc., Golden Gate National Senior Care Administrative Services, LLC, and certain present or former officers, directors and employees of those companies.

2. What is the lawsuit about?

In the First Amended Complaint filed by the Plaintiffs, Plaintiffs allege that the Defendants breached their fiduciary duties under ERISA by (a) imprudently causing the Plan to incur a \$2.3 million market value adjustment

penalty, when the Plan liquidated the Stable Value Fund in 2006 to transfer those assets to the new investment provider, Fidelity (the “MVA Claim”); (b) imprudently mapping the Plan participants’ investments to untested Fidelity Freedom Funds, (“Fidelity Claims”); (c) causing the Plan to pay excessive fees to a service provider called Stephens Inc. (“Stephens”) (the “Stephens Claim”); (d) causing the Plan to pay excessive fees for underperforming investments offered by Diversified Investment Advisors (“Diversified Claims”). Plaintiffs seek to recover from the Defendants the losses to the Plan caused by the Defendants’ allegedly wrongful conduct.

The Defendants have denied and continue to deny that they engaged in any wrongful conduct or violated any laws, rules, or regulations, and believe they have factual and legal defenses to Plaintiffs’ allegations. The Court had not yet ruled on the merits of Plaintiffs’ case or the Defendants’ defenses when the Settlement was reached. The Court has made no findings that the Defendants or any Plan fiduciary engaged in any wrongdoing or in any wrongful conduct or have otherwise acted improperly or in violation of any law or regulation in any respect.

3. Why is this a class action?

In a class action, one or more persons called class representatives sue on behalf of people who purportedly have similar claims. All of these people who have similar claims make up the class and are Class Members. One court resolves the issues for all Class members. Because the wrongful conduct alleged by Plaintiffs in this case allegedly affected a large group of people in a similar way, Plaintiffs filed this case as a class action.

Plaintiffs have also brought this action derivatively on behalf of the Plan. The Class Members are thus protected individually and as Plan participants by the Settlement.

4. Why is there a Settlement?

The Court has not decided in favor of Plaintiffs or Defendants. Instead, both sides agreed to a Settlement. By agreeing to this Settlement, the settling parties avoid the costs and a risk of a trial and possible appeal, and the Class will receive compensation, directly or indirectly. The class representatives and their attorneys believe that the Settlement is in the best interest of Class Members.

WHO IS IN THE SETTLEMENT

5. How do I know if I am part of the Settlement?

The Court has conditionally certified this case as a class action, and the Class consists of persons who fit the following definition:

All participants and beneficiaries of the Plan from 1996 through the present, excluding any Defendant in this Action. Unless you are one of the Defendants, you are a member of the Class if the above definition describes you.

6. Do I need to do anything to join the case and share in the Settlement? Can I exclude myself from the Settlement?

If you are a current Plan participant, you do not need to take any action to join the case. If you are a current Plan participant and if the Settlement is approved by the Court, and you are a member of the Class, you will be notified of the deposit of your share of the Settlement into your Plan account. If you are a former Plan participant, you must send in the enclosed self-addressed stamped postcard within sixty days after the Final Order Approving the Settlement becomes Final to participate in the Settlement. If you send in the Postcard, a new account in the Plan will be created for you and your share of the settlement will be deposited in your Plan account.

Unlike in some class actions, you do not have the option to exclude yourself (or “opt out”) of the class. This case was preliminarily certified as a non-opt-out class because of the way ERISA operates. Breach of fiduciary duty claims under ERISA must be brought on behalf of an employee benefit plan as a whole, including all its participants and beneficiaries. Therefore it is not possible for some participants or beneficiaries to exclude themselves from the case.

Therefore, if the Court, at the Fairness Hearing certifies the Settlement Class as a class action, you will be bound by any judgments or orders that the Court enters in the case, and if the Settlement is approved, you will be deemed to have released the Defendants from any and all claims that were or could have been asserted in this case, and will not be able to sue the Defendants on those bases, but you will be able to obtain any benefits and rights that you may be entitled to under the terms of the Settlement. Although you cannot exclude yourself from the case, you can object to the Settlement and ask the Court not to approve it.

7. How do I get more information?

You can call 1-888-955-2719 toll free, or visit the following website: www.gilardi.com/BeverlyERISASettlement, where you will find answers to common questions about the Settlement, plus other information to help you determine whether you are a Class Member. Please do not contact the Court. It cannot answer your questions.

THE SETTLEMENT BENEFITS--WHAT YOU GET

8. What does the Settlement provide?

The Defendants have agreed to pay \$6.25 million plus interest accruing from July 7, 2009, to resolve Plaintiffs' claims against them. This payment is called the "Settlement Fund." Certain fees and expenses, including those of Plaintiffs' Counsel that are approved by the Court, case contribution awards to the Named Plaintiffs that are approved by the Court, the cost of notifying Class Members, taxes and administrative expenses will be deducted from the Settlement Fund. After these deductions, the remaining net settlement, called the Net Proceeds, will be available for the Class. If the Court awards Plaintiffs' counsel 33 ⅓% of the Settlement Fund as a fee, approximately \$80,000 in expenses of counsel, approximately \$80,000 in fees and costs to the Settlement Administrator, sets aside a contingency reserve fee for settlement-related payments in the amount of \$50,000, and also awards each Named Plaintiff a case contribution award of \$10,000, as has been requested, that would leave approximately \$3,926,875 million in the Settlement Fund. This amount, minus other applicable fees and costs, will then be distributed to the Class under the terms of the Plan of Allocation.

9. What is my share of the Settlement?

The Plan Administrator or its designee will calculate your share of the settlement. Your settlement amount (subject to the *de minimis* provision, i.e., losses less than \$50.00 shall be returned to the Plan to pay administrative costs of the Settlement) will be calculated pursuant to the formula contained in the Plan of Allocation, which is summarized below:

a. **MVA Claim:** With regard to the MVA in July 2006, 32% of the Net Proceeds will be allocated to the members of the class who were participants in the Plan on or about July 6, 2006, and whose Plan account incurred an MVA. The allocation of settlement funds for the MVA claim will be calculated as follows: the MVA amount for each Class Member will be aggregated and then calculated as a percentage of the total MVA. The resulting percentage will be multiplied by the total amount of Net Proceeds for this claim (32% of the Net Proceeds) to determine that Class Member's net settlement amount relating to the MVA claim.

b. **Stephens Claim(s):** With regard to the Stephens claim(s), 20% of the Net Proceeds will be distributed to members of the class who were participants in the Plan from January 1, 1996 through December 31, 2004 based on the sum of any dollar amounts investing in the Plan as of December 31 of each calendar year from January 1, 1996 through December 31, 2004, calculated as a percentage of all dollar amounts invested in the Plan during this time period, then multiplied by the total amount of Net Proceeds for this claim (20% of the Net Proceeds) to determine that Class Member's net settlement amount relating to the Stephens claim(s).

c. **Diversified Claim(s):** With regard to the DIA claim(s), 33% of the Net Proceeds will be distributed to members of the class who were participants in the Plan from January 1, 1996 through July 1, 2006 based on the sum of any dollar amounts invested in the Plan as of December 31 of each calendar year from January 1, 1996 through July 1, 2006, calculated as a percentage of all dollar amounts invested in the Plan during this time period, then multiplied by the total amount of Net Proceeds for this claim (33% of the Net Proceeds) to determine that Class Member's net settlement amount relating to the DIA claim(s).

d. **Fidelity Claim(s):** With regard to the Fidelity claim(s), 15% of the Net Proceeds will be distributed to members of the class who were participants in the Plan from July 1, 2006 through June 4, 2009 based on the sum of any dollar amounts invested in the Plan from July 1, 2006 through June 4, 2009 as of December 31 of each calendar year, calculated as a percentage of all dollar amounts invested in the Plan during this time period, then multiplied by the total amount of Net Proceeds for this claim (15% of the Net Proceeds) to determine that Class Member's net settlement amount relating to the Fidelity claim(s).

10. How do I get my payment?

If you are a Class Member and still participate in the Plan, the Plan Administrator or its designee will deposit your payment, if any, into your account, and it will be invested in accordance with your existing instructions for investing your account. If you are a Class Member and no longer participate in the Plan, and if you are entitled to receive an allocation and timely return the enclosed postcard, the allocation shall be credited to a Managed Income Portfolio fund (or investment vehicle), or an equivalent account, established in the Plan. You may then be able to "roll over" the funds held in that account to your current 401(k) or IRA account tax-free and other options which will be explained to you.

11. When will I get my share of the Net Proceeds?

The Court will hold a hearing at 3 P.M. on March 24, 2010 to decide whether to approve the Settlement. It may take the Court several weeks or months after the hearing before it decides.

12. What am I giving up in the Settlement?

Under the Settlement, Class Members will give up, or "release" the right to sue the Defendants over the same events and subject matter involved in the case or which could have been raised in the case, including

whether the Defendants breached their duties to the Plan and its participants during the Class Period, and any similar claims under the state or federal law.

That means that even if you discover facts in the future that were not known at the time of the Settlement, which you think demonstrate further violations by the Defendants related to this case, you may not sue them. Each Class Member assumes the risk that he or she may discover new information. Even if new information is discovered, the Settlement will be binding.

In that regard, class members will waive any rights they may have under California Civil Code Section 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER, MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

You will retain your rights to receive your share of the Settlement Fund and to enforce the Settlement.

THE LAWYERS REPRESENTING YOU

13. Do I have a lawyer in this case?

The Court has appointed the following lawyers to represent the class:

Ronald S. Kravitz
LINER GRODE STEIN YANKELEVITZ
SUNSHINE REGENSTREIF & TAYLOR LLP
199 Fremont Street, 20th Floor
San Francisco, CA 94105-2255
Telephone: (415) 489-7700
Facsimile: (415) 489-7701

These lawyers are called Class Counsel. You will not be personally charged for these lawyers. They will seek to be paid from the funds provided by the Settlement. If you want to be represented by your own lawyer, you may hire one at your own expense.

14. How will the lawyers be paid?

Class Counsel will ask the Court for attorney fees not to exceed 33⅓% percent of the Settlement Fund. Class Counsel will also ask for reimbursement of expenses they advanced during the case. The Court decides how much attorney fees and expenses to award to Class Counsel. The Court may award less than the amounts requested.

OBJECTING TO THE SETTLEMENT

You can tell the Court in writing, or at the Fairness Hearing, that you do not agree with the Settlement or some part of it.

15. What does it mean to object?

Objecting is simply telling the Court that you do not like something about the Settlement. It will not have any bearing on your right to Settlement proceeds if the Settlement is approved.

16. How do I tell the Court that I don't like the Settlement?

You can object to the Settlement if you dislike any part of it, including certification of the Settlement Class as a class action. You can give reasons why you think the Court should not approve it. To object, you must send a letter saying that you object to the Settlement in *Katziff, et al. v. Beverly Enterprises Inc., et al.*, Case No. 07-11456-NMG. Be sure to include your name, address, telephone number, your signature, and reasons you object to the Settlement. **Mail the objection to all of the addresses below postmarked no later than March 9, 2010. You must mail your objection by this date. If you fail to do so, the Court will not consider your objections.**

COURT
Clerk of the Court
UNITED STATES DISTRICT COURT OF MASSACHUSETTS
John Joseph Moakley United States Courthouse
Suite 2300
One Courthouse Way
Boston, MA 02210-3002

CLASS COUNSEL

Ronald S. Kravitz
LINER GRODE STEIN YANKELEVITZ SUNSHINE REGENSTREIF
& TAYLOR LLP
199 Fremont Street, 20th Floor
San Francisco, CA 94105-2255

DEFENSE COUNSEL

Ashley B. Abel	Matthew A. Porter
Jackson Lewis LLP	Matthew D. Freeman
One Liberty Square	Jackson Lewis LLP
55 Beattie Place, Suite 800	75 Park Plaza, 4th Floor
Greenville, SC 32704	Boston, MA 02116

Be sure include the Case Number, "07-11456-NMG" on the first page of all documents.

THE COURT'S FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the Settlement. You may attend and you may ask to speak, but you are not required to.

17. When and where will the Court decide whether to approve the Settlement?

The Court will hold a Fairness Hearing at 3 P.M. on March 24, 2010 at the United States District Court of Massachusetts, John Joseph Moakley United States Courthouse, Suite 2300, One Courthouse Way, Boston, MA 92210-3002. At this hearing, the Court will consider whether the Settlement is fair, reasonable, and adequate. If there are objections, the Court will consider them. Judge Nathaniel M. Gorton will determine whether and to what extent parties will be permitted to address the Court at the hearing. The Court will also decide what amount of Class Counsel fees and expenses will be paid from the Settlement Fund. After the hearing, the Court will decide whether to approve the Settlement. We do not know how long these decisions will take.

18. Do I have to go to the fairness hearing?

No, Class Counsel will answer questions the Court may have. You are, however, welcome to go at your own expense. If you send an objection, you do not have to go to Court to talk about it. As long as your objection is postmarked by March 9, 2010 the Court will consider it. You also may pay your own lawyer to attend, but it is not necessary.

19. May I speak at the hearing?

You may ask the Court for permission to speak at the Fairness Hearing. To do so, you must send a letter saying that it is your "Notice of Intention to Appear". Be sure to include your name, address, telephone number, and your signature. Your Notice of Intention to Appear must be postmarked no later than March 9, 2010 and sent to the Clerk of the Court, Class Counsel, and Counsel for Defendants, at the addresses indicated above in question 16.

IF YOU DO NOTHING

20. What happens if I do nothing at all?

The Settlement does not require you to do anything and there is no penalty for doing nothing at all. If you are entitled to a Settlement payment, you will receive a payment as discussed in question 10.

GETTING MORE INFORMATION

21. Are there more details about the Settlement?

This Notice summarized the proposed Settlement. More details are in the Parties' Stipulation and Settlement Agreement. You can get a copy of the Settlement Agreement by visiting the following website: www.gilardi.com/BeverlyERISASettlement. You can also inspect any of the documents filed in the case, free of charge, by visiting the Clerk of Court, United States District Court of Massachusetts, John Joseph Moakley United States Courthouse, Suite 2300, One Courthouse Way, Boston, MA 92210-3002, during regular business hours. You can purchase copies of those documents from the Clerk of Court.

Remember, please do not contact the Court. They cannot help you with additional information.

Questions? Call 1-888-955-2719 for more information.

DATE: January 6, 2010

IT IS SO ORDERED, ADJUDGED AND DECREED.

DATED: January 6, 2010

/s/ The Honorable Nathaniel M. Gorton
United States District Judge

Beverly Enterprises Inc. ERISA
Notice Administrator
P.O. Box 8040
San Rafael, CA 94912-8040

Important Legal Document.

BEVERLY