FORM SC 14D9

Tender offer solicitation / recommendation statements filed under Rule 14d-9

Filing Date: **1998-01-05**
SEC Accession No. 0000892569-98-000010

SUBJECT COMPANY

ARV ASSISTED LIVING INC

CIK:**949322**| IRS No.: **330160968** | State of Incorp.:**CA** | Fiscal Year End: **1231**
Type: **SC 14D9** | Act: **34** | File No.: **005-44631** | Film No.: **98501132**
SIC: **8050** Nursing & personal care facilities

Mailing Address
245 FISCHER AVENUE
SUITE D-1
COSTA MESA CA 92626

Business Address
245 FISCHER AVE
SUITE D-1
COSTA MESA CA 92626
7147517400

FILED BY

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-9
SOLICITATION/RECOMMENDATION STATEMENT
PURSUANT TO SECTION 14(d)(4)
OF THE SECURITIES EXCHANGE ACT OF 1934

ARV ASSISTED LIVING, INC.
(NAME OF SUBJECT COMPANY)

ARV ASSISTED LIVING, INC.
(NAME OF PERSON(S) FILING STATEMENT)

COMMON STOCK, NO PAR VALUE
(INCLUDING THE ASSOCIATED SERIES C JUNIOR PARTICIPATING
PREFERRED STOCK PURCHASE RIGHTS)

(TITLE OF CLASS OF SECURITIES)

00204C107
(CUSIP NUMBER OF CLASS OF SECURITIES)

SHEILA M. MULDOON, ESQ.
VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY
ARV ASSISTED LIVING, INC.
245 FISCHER AVENUE, SUITE D-1
COSTA MESA, CA 92626
(714) 751-7400

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO RECEIVE
NOTICES AND COMMUNICATIONS ON BEHALF OF THE PERSON(S) FILING STATEMENT)

WITH A COPY TO:
WILLIAM J. CERNIUS, ESQ.
LATHAM & WATKINS
650 TOWN CENTER DRIVE, 20TH FLOOR
COSTA MESA, CA 92626
(714) 540-1235

INTRODUCTION

This Solicitation/Recommendation Statement on Schedule 14D-9 (this "Statement") relates to an offer by EMAC Corp., a Delaware corporation ("EMAC") and a wholly-owned subsidiary of Emeritus Corporation, a Delaware corporation ("Emeritus"), to purchase all outstanding Shares (as defined below) of ARV Assisted Living, Inc., a California corporation (the "Company").

ITEM 1. SECURITY AND SUBJECT COMPANY

The name of the Company and address of its principal executive offices are ARV Assisted Living, Inc., 245 Fischer Avenue, Suite D-1, Costa Mesa, CA 92660.

The title of the class of equity securities to which this Statement relates is the Company's common stock (the "Shares" or the "Common Stock"), no par value (including the associated Series C Junior Participating Preferred Stock Purchase Rights (the "Rights") issued pursuant to the Rights Agreement (the "Rights Agreement"), dated as of July 14, 1997, between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent).

ITEM 2. TENDER OFFER OF THE BIDDER

This Statement relates to the tender offer made by EMAC, disclosed in a Tender Offer Statement on Schedule 14D-1 (the "Emeritus Schedule 14D-1") dated December 19, 1997, to purchase all outstanding Shares, including the Rights (unless the Rights are redeemed by the Board of Directors of the Company (the "Board")) at $17.50 per Share (the "Emeritus Offer Price"), net to the Seller in cash and without interest upon the terms and subject to the conditions set forth in the Offer to Purchase dated December 19, 1997 (the "Emeritus Offer to Purchase") and the related Letter of Transmittal (together with the Emeritus Offer to Purchase, the "Emeritus Tender Offer"). The Emeritus Schedule 14D-1 states that the principal executive offices of EMAC and Emeritus are located at 3131 Elliot Avenue, Suite 500, Seattle, WA 98121.

According to the Emeritus Schedule 14D-1, if the Emeritus Tender Offer succeeds, Emeritus intends to consummate a merger (the "Proposed Squeeze Out Merger") and, together with the Emeritus Tender Offer, the "Emeritus Transaction") pursuant to which all Shares not tendered and purchased pursuant to the Emeritus Tender Offer (other than Shares owned by Emeritus and its subsidiaries or held in the Company's treasury) would be converted into the right to receive an amount in cash equal to the price per Share paid pursuant to the Emeritus Tender Offer.

ITEM 3. IDENTITY AND BACKGROUND

(a) The name and business address of the Company, which is the person filing this Statement, are set forth in Item 1 above.

(b) Reference is made to the information contained under the captions "Election of Directors -- Compensation of Directors," "-- Executive Compensation," "-- Security Ownership of Directors and Named Executive Officers," "-- Security Ownership of Certain Beneficial Owners," "-- Compensation Committee Interlocks and Insider Participation," and "-- Certain Relationships and Related Transactions" in the Company's proxy statement dated December 31, 1997, relating to the Company's 1997 Annual Meeting of Shareholders. The relevant sections thereof are filed as Exhibit 1 hereto and are incorporated herein by reference. Except as described herein or incorporated herein by reference, there are no contracts, agreements, arrangements or understandings or any actual or potential conflicts of interest between the Company or its affiliates and EMAC or Emeritus or their respective executive officers, directors or affiliates.

ITEM 4. THE SOLICITATION OR RECOMMENDATION

(a) RECOMMENDATION OF THE BOARD OF DIRECTORS.

THE BOARD HAS UNANIMOUSLY DETERMINED THAT THE EMERITUS TRANSACTION, INCLUDING THE EMERITUS TENDER OFFER, IS INADEQUATE AND NOT IN THE BEST INTERESTS OF THE COMPANY, AS DESCRIBED IN MORE DETAIL BELOW. ACCORDINGLY, THE BOARD UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS OF THE

COMPANY REJECT THE EMERITUS TRANSACTION AND NOT TENDER THEIR SHARES PURSUANT TO THE EMERITUS TENDER OFFER.

The Board's determination, which was reached at meetings held on January 2, 1998 and January 5, 1998, was based on its belief that, in light of the prospects of the Company's business, the potential benefits of the recent investment of $86.9 million in the Company by Prometheus Assisted Living LLC ("Prometheus"), the Company's relationship with Kapson Senior Quarters Corp. ("Kapson") and the other factors described below, the Company's and its shareholders' interests would be best served if the Company were to remain independent and pursue its business strategy.

In light of the Board's decisions, management of the Company, together with the Company's advisors, are continuing to refine the Company's strategic plan and are actively exploring opportunities to enhance the value of the Company.

Copies of a press release announcing the Board's determinations, and two letters to the stockholders of the Company communicating the Board's recommendations are filed as Exhibits 2, 3 and 4 hereto, respectively, and are incorporated herein by reference.

(b) REASONS FOR RECOMMENDATION. In reaching its determinations and recommendations described in Item 4(a) above, the Board considered a number of factors, including, without limitation, the following:

(i) the Board's belief, based on its familiarity with the Company's business, financial condition, business strategy and future prospects, that the proposed consideration in the Emeritus Transaction, including the Emeritus Tender Offer, does not adequately reflect the inherent value of the Company;

(ii) the Board's continued belief that execution of the Company's strategic plan will produce greater long-term value for the shareholders of the Company and greater benefits for the Company's employees and customers than the Emeritus Transaction;

(iii) the fact that, because of the factors discussed herein, the Board has consistently maintained that the Company is not for sale, and, therefore, has not explored the potential for higher consideration for the Company's shareholders in a sale of the Company;

(iv) a presentation by Salomon Smith Barney ("SSB"), financial advisors to the Company, concerning the financial aspects of the Emeritus Transaction, and the opinion of SSB to the effect that, as of January 5, 1998, the proposed consideration to be received by the shareholders of the Company pursuant to the Emeritus Transaction, including the Emeritus Tender Offer, is inadequate; such opinion was expressed after review of many of the factors referred to herein and various financial criteria used in assessing an offer, and was based on various assumptions and subject to various limitations, which were reviewed for the Board as part of the presentation of SSB;

(v) the numerous and significant conditions contained in Emeritus' proposal, including: (A) the valid tender of at least a majority of the total number of outstanding Shares on a fully diluted basis (exclusive of any Shares issuable upon conversion of the Company's 6 3/4% Convertible Subordinated Notes due 2006); (B) redemption of the Rights by the Board; (C) Emeritus and EMAC being satisfied, in their discretion, that EMAC has obtained financing upon terms satisfactory to them in an amount sufficient to consummate the Emeritus Transaction, including the Emeritus Tender Offer and the redemption or refinancing of all outstanding debt and payment of all fees and expenses; (D) Emeritus and EMAC being satisfied, in their

discretion, that the Board has approved and recommended or will approve and recommend a merger between the Company and EMAC; (E) rescission of the December 5, 1997 redemption of the Company's 6 3/4% Convertible Subordinated Notes due 2007 (the "Prometheus Notes"); (F) EMAC being satisfied that all necessary consents and approvals, including those from the lessors under the Company's existing leases, have been obtained on terms satisfactory to EMAC, in its discretion; and (G) that no material adverse change shall have occurred in the operations or prospects of the Company or any of its subsidiaries; the Board believes that the defaults under the Company's existing

leases that would result from EMAC's taking control of the Company would constitute such a material adverse change;

(vi) the Board's concern that, in light of the numerous and significant conditions described above, the offer is illusory in that Emeritus has no intention of paying the Company's shareholders $17.50 per share, but rather intends to renegotiate with the Company for a lower price or a different form of consideration;

(vii) in the event that any form of consideration that might be provided would include Emeritus securities, the poor historical financial results of Emeritus, which has reported losses in excess of $14 million for the first three quarters of 1997 and in excess of $18 million for the previous four reported quarters and has demonstrated an inability to effectively operate its own business;

(viii) the fact that Emeritus has not yet secured financing for the Emeritus Transaction (as it admits in the Emeritus Schedule 14D-1), and the Board's belief that, considering Emeritus' financial condition, Emeritus may not be able to secure financing for the Emeritus Transaction, including the Emeritus Tender Offer, on acceptable terms. In addition, at least one lender from which Emeritus plans to obtain partial financing has conditioned such financing on the absence of a material adverse effect on the operations or prospects of the Company. As described in Subsection 4(b)(v)(G) above, a change in control of the Company would trigger defaults under several of the Company's existing leases, resulting in a material adverse effect which renders this portion of Emeritus' proposed financing vulnerable;

(ix) the lack of sufficient disclosure in the Emeritus Schedule 14D-1 regarding the proposed financing of the Emeritus Tender Offer, the possibility that restrictive covenants or other conditions to such financing would have a negative impact on the ability of Emeritus to maintain and/or expand the proposed combined business, and the effect of the Emeritus Transaction on Emeritus' capital structure and credit rating;

(x) the uncertainty as to the actual terms of the Proposed Squeeze Out Merger and the value to be obtained therefrom by the Company's shareholders, resulting from, among other things, the lack of disclosure in the Emeritus Schedule 14D-1 concerning the Proposed Squeeze Out Merger and the express possibility that Emeritus securities, rather than cash, may be used as consideration in the Proposed Squeeze Out Merger;

(xi) the Board's concern that, in light of the uncertainty as to the actual terms of the Proposed Squeeze Out Merger, the current Board will not have sufficient information to consider the Proposed Squeeze Out Merger prior to the expiration of the Emeritus Tender Offer and, therefore, at

least one of the conditions to the Emeritus Tender Offer will not be possible to satisfy;

(xii) the financial and legal impracticalities of rescinding the redemption of the Prometheus Notes, which rescission is a condition to the Emeritus Tender Offer;

(xiii) the recent trading performance of the Common Stock, which has increased in value by more than 38% since July 14, 1997 (the last trading day prior to the announcement of an investment by Prometheus in the Company);

(xiv) the Board's concern that, as suggested in the Emeritus Schedule 14D-1, the consideration to be received by the shareholders of the Company in the Proposed Squeeze Out Merger could consist, in whole or in part, of securities of Emeritus, which, as described above, has not been successful in the operation of its existing business;

(xv) the Board's concern about Emeritus' access to and misuse of confidential Company information;

(xvi) the disruptive effect the Emeritus Tender Offer and the Proposed Squeeze Out Merger are having on the Company and the potential adverse effect of the Emeritus Transaction on the interests of the Company's employees, suppliers, lessors, creditors and customers; and

(xvii) the commitment of the Board (of which 6 of the 9 members are not employees of the Company) and the management of the Company to protecting the best interests of the shareholders of the Company and enhancing the value of the Company.

The foregoing discussion of the information and factors considered and given weight by the Board is not intended to be exhaustive. In view of the variety of factors considered in its evaluation, the Board did not find it practicable to and did not quantify or otherwise assign relative weights to the specific factors considered in reaching its determinations and recommendation. In addition, individual members of the Board may have given different weights to different factors.

ITEM 5. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED

The Company has retained MacKenzie Partners for solicitation, informational and advisory services in connection with the solicitation, for which MacKenzie Partners will receive a fee estimated at $100,000, together with reimbursement for its reasonable out-of-pocket expenses and for payments made to brokers and other nominees for their expenses in forwarding soliciting material. MacKenzie Partners will distribute proxy materials to beneficial owners and solicit proxies by personal interview, mail, telephone and telegram, and will request brokerage houses and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of the Common Stock held on December 18, 1997 by such person. It is anticipated that MacKenzie Partners will employ approximately 40 persons to solicit shareholders for the Annual Meeting.

The Board has retained Salomon Smith Barney ("SSB") to act as financial advisor to the Company in connection with this solicitation. SSB also acted as the Company's financial advisor in connection with Prometheus' $86.9 million investment in the Company. Pursuant to an engagement letter with SSB, the Company agreed to pay SSB 3% of the total transaction value of the Prometheus

transaction. The Company has also agreed to pay SSB $250,000 for each fairness or inadequacy opinion that it renders to the Company (other than SSB's initial fairness opinion with respect to the Prometheus transaction). Pursuant to an engagement letter with SSB dated October 29, 1997, the Company agreed to pay SSB 1.1% of the aggregate consideration payable to the Company or its shareholders in connection with any acquisition or similar business combination involving the Company or relating to the acquisition of more than 30% of the Company's voting securities from the Company and/or its shareholders. In addition, the Company has agreed to reimburse SSB for its reasonable out-of-pocket expenses, including fees of counsel and any sales, use or similar taxes. The Company has agreed to indemnify SSB against certain liabilities arising out of or in connection with its engagement.

SSB has provided financial advisory services and investment banking services to the Company from time to time for which it has received customary compensation. In the ordinary course of business, SSB may from time to time effect transactions and hold positions in securities of the Company.

The Board has also retained Bear, Stearns & Co., Inc. ("Bear Stearns") to act as financial advisor to the Company in connection with this solicitation. Pursuant to an engagement letter with Bear Stearns, the Company agreed to pay Bear Stearns a total of $500,000 for its advisory services. In addition, the Company has agreed to reimburse Bear Stearns for its reasonable out-of-pocket expenses, including fees of counsel and any sales, use or similar taxes. The Company has agreed to indemnify Bear Stearns against certain liabilities arising out of or in connection with its engagement. In the ordinary course of business, Bear Stearns may from time to time effect transactions and hold positions in securities of the Company.

The Company has retained The Abernathy MacGregor Group, Inc. ("Abernathy") as its public relations advisor in connection with the Emeritus Tender Offer and related matters. Abernathy will receive reasonable and customary compensation for its services and reimbursement of out-of-pocket expenses in connection therewith. The Company has agreed to indemnify Abernathy against certain liabilities arising out of or in connection with its engagement.

The Directors, executive officers and certain employees of the Company who may make solicitations or recommendations to shareholders on behalf of the Company concerning the Emeritus Tender Offer are listed on Annex A hereto.

Other than as disclosed herein or in Annex A, neither the Company nor any person acting on its behalf currently intends to employ, retain or compensate any other person to make solicitations or recommendations to shareholders on its behalf concerning the Emeritus Tender Offer.

ITEM 6. RECENT TRANSACTIONS AND INTENT WITH RESPECT TO SECURITIES

(a) During the past 60 days, neither the Company nor any subsidiary of the Company nor, to the best of the Company's knowledge, any executive officer, director or affiliate of the Company has effected a transaction in the Shares other than the issuance to Prometheus of 4.3 million Shares in connection with the optional redemption by the Company of the Company's 6 3/4% Convertible Subordinated Notes due 2007 on December 5, 1997. Robert P. Freeman and Murry N. Gunty, each a Director of the Company, are the President and a Vice President, respectively, of Lazard Freres Real Estate Investors L.L.C. ("LFREI"). Kenneth M. Jacobs, who is a Director of the Company, is a Managing Director of Lazard Freres & Co., LLC, the managing member of LFREI. Each of Messrs. Freeman, Gunty and Jacobs have shared voting and investment power over the securities held by

Prometheus and each may be deemed to beneficially own Prometheus' Shares. Each of Messrs. Freeman, Gunty and Jacobs disclaims beneficial ownership of Prometheus' Shares except to the extent of their pecuniary interest therein.

(b) To the best of the Company's knowledge, (i) none of its executive officers, directors, affiliates or subsidiaries presently intends to tender Shares pursuant to the Emeritus Tender Offer and (ii) none of its executive officers, directors, affiliates or subsidiaries presently intends to otherwise sell any Shares which are owned beneficially or held of record by such persons.

ITEM 7. CERTAIN NEGOTIATIONS AND TRANSACTIONS BY THE SUBJECT COMPANY

(a) There is no negotiation being undertaken or underway by the Company in response to the Emeritus Tender Offer which relates to or would result in (i) an extraordinary transaction, such as a merger or reorganization, involving the Company or any subsidiary of the Company, (ii) a purchase, sale or transfer of a material amount of assets by the Company or any subsidiary of the Company, (iii) a tender offer for or other acquisition of securities by or of the Company, or (iv) any material change in the present capitalization or dividend policy of the Company.

(b) There are no transactions, Board resolutions, agreements in principle or signed contracts in response to the Emeritus Tender Offer that relate to or would result in one or more of the events referred to above in the first paragraph of this Item 7(a).

ITEM 8. ADDITIONAL INFORMATION TO BE FURNISHED

Litigation

On December 9, 1997, Emeritus filed a complaint (the "Complaint") in Orange County Superior Court for the State of California (the "Court") against the Company and the Board. The Complaint asserts five claims based on a number of alleged breaches of fiduciary duty by defendants, including (1) that the Company's decision to redeem the Prometheus Notes at approximately 123% of their face value and thereby issue approximately 4.3 million shares of Common Stock was for the purpose of entrenchment; (2) that the Board has failed to maximize value for the Company's shareholders; (3) that the transactions with Prometheus were improper defensive measures undertaken by the Board for the purposes of entrenchment; (4) that the Board failed to exercise due care in considering the transactions with Prometheus and in refusing to negotiate with Emeritus and summarily rejecting Emeritus' proposals; and (5) that the Board implemented the Rights Plan for the improper purpose of entrenchment. Among other requests for relief, Emeritus seeks a declaration by the Court that these acts were in violation of defendants' fiduciary duties and an injunction; (i) rescinding and nullifying the redemption of the Prometheus Notes; (ii) rescinding and nullifying the

transactions with Prometheus; (iii) directing that defendants take prompt and diligent steps to maximize the Company's shareholder value, and (iv) directing that defendants redeem the Rights Plan or make it inapplicable to Emeritus.

On December 10, 1997, Emeritus filed a motion with the Court seeking expedited discovery from defendants so that it could seek relief on its claims from the Court prior to the Company's January 28, 1998 Annual Meeting. The parties subsequently entered into a stipulation providing that Emeritus would obtain expedited discovery from defendants, setting forth a briefing schedule for Emeritus' motion for declaratory and injunctive relief, and agreeing on a

January 23, 1998 hearing date before the court. In light of the stipulation, Emeritus has withdrawn its motion for expedited discovery.

The foregoing descriptions of the complaints are qualified in their entirety by reference to the complaints.

ITEM 9. MATERIALS TO BE FILED AS EXHIBITS

1. Excerpts from the Company's Proxy Statement dated December 31, 1997.

2. Text of Press Release issued by the Company dated January 5, 1998.

3. Letter to shareholders of the Company dated January 5, 1998.*

4. Letter to shareholders of the Company dated January 5, 1998.*

5. Complaint in Emeritus Corporation v. ARV Assisted Living, Inc., et al., case no. 787788.

6. Stipulation in Emeritus Corporation v. ARV Assisted Living, Inc., et al., case no. 787788.

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* Included in materials sent to shareholders.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

ARV ASSISTED LIVING, INC.

By: /s/ SHEILA M. MULDOON
Sheila M. Muldoon
Vice President, General
Counsel and Secretary

Dated as of January 5, 1998

EXHIBIT INDEX

<TABLE>
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EXHIBIT	DESCRIPTION	PAGE NO.
<C>	<S>	<C>
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EXHIBIT 1

COMPENSATION OF DIRECTORS

Non-employee directors receive $12,000 per year, paid quarterly in advance, and $500 for each meeting of the Board or committee of the Board that they attend. John J. Rydzewski served as Chairman of the Board of the Company from October 1997 to December 1997 and received $18,750 for his services in such capacity. In October 1995, the Company established the 1995 Stock Option Plan which provides, among other things, that each non-employee director who is initially elected or appointed to the Board will, upon such election or appointment, be automatically granted an option to purchase 10,000 shares of Common Stock, vesting at the rate of 2,500 per year measured from the date of grant, at an exercise price equal to the fair market value of the Common Stock on the date of grant. In addition, every fourth year following the date on which such non-employee director is elected or appointed, on the date of the annual meeting of the shareholders of the Company, if such person has continuously served as a non-employee director, such non-employee director shall automatically receive an option to purchase 10,000 shares of Common Stock, at an exercise price equal to the fair market value of the Common Stock on the date of grant, vesting at the rate of 2,500 per year measured from the date of grant.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain information with respect to compensation paid by the Company in the fiscal years ended 1997, 1996 and 1995 to the Company's Chief Executive Officer during fiscal 1997 and the Company's four next most highly compensated executive officers as of March 31, 1997 whose annual salary and bonus exceeded $100,000 and John A. Booty, who resigned as President effective as of September 30, 1996 (the "Named Executive Officers").

<TABLE>
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NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	LONG-TERM COMPENSATION AWARDS OF STOCK OPTIONS(1)	OTHER COMPENSATION (2)(3)(4)
<S>	<C>	<C>	<C>	<C>	<C>
Gary L. Davidson,.....	1997	$272,414	$ 84,634	10,000(5)	$ 8,483
former Chairman, CEO and	1996	263,100	140,785	101,085(5)	15,476
President (retired October 13, 1997)	1995	250,250	148,575	--	49,918
John A. Booty,.....	1997	136,207	50,582	--	6,426
Interim President(6)	1996	263,100	140,785	33,695	13,274
	1995	250,250	148,575	--	49,918
David P. Collins.....	1997	204,791	63,329	10,000	3,474
Senior Executive Vice	1996	186,132	120,062	59,539	3,971
President	1995	229,968	70,043	--	33,608
Graham P. Espley-Jones,.....	1997	193,882	--	10,000	7,226
Executive Vice President and	1996	166,000	33,000	33,618	12,485
Chief Financial Officer	1995	135,500	56,610	--	33,228
Sheila M. Muldoon,.....	1997	156,981	7,000	20,000	2,624
Vice President, General	1996	112,000	21,500	10,000	--
Counsel and Secretary(7)	1995	51,667	3,000	--	--
Eric K. Davidson,.....	1997	132,230	4,500	20,000	5,741
Senior Vice President(8)	1996	96,667	20,000	30,655	5,827
	1995	75,141	--	--	8,677

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(1) Options have been granted to certain of the Named Executive Officers as more fully described in "-- Option Grants in Last Fiscal Year" below.

(2) Includes consulting fees from ARV Management, Inc. and ARV Housing Partners, Inc., former subsidiaries of the Company. Both subsidiaries have been merged

into the Company and all compensation from them were discontinued as of fiscal 1996. Fees paid by ARV Management, Inc. to the Named Executive Officers in fiscal year 1995 are as follows: Mr. Gary Davidson -- $30,720; Mr. Booty -- $30,720; Mr. Collins -- $18,360; and Mr. Espley-Jones -- $23,000. Fees paid by ARV Housing Partners, Inc. to the Named Executive Officers in fiscal year 1996 are as follows: Mr. Gary Davidson -- $6,475; Mr. Booty -- $6,475 and Mr. Espley-Jones -- $11,000.

(3) Also includes premiums for term life, medical, dental and disability insurance purchased for the benefit of certain of the Named Executive Officers in the following amounts: Mr. Gary Davidson -- $8,483, $9,001 and $3,248; Mr. Booty -- $6,426, $6,799 and $3,248; Mr. Collins -- $3,474, $3,971 and $3,248;

Mr. Espley-Jones -- $7,226, $7,485 and $2,948; and Mr. Eric Davidson -- $5,741, $5,827 and $5,785 for the fiscal years ended March 31, 1997, 1996 and 1995, respectively and $2,624 for fiscal year ended March 31, 1997 for Ms. Muldoon. These amounts represent insurance premiums paid by the Company beyond what it pays for other similarly situated employees.

(4) Also includes contributions made by the Company or affiliates under the Company's ESOP for the fiscal year ended March 31, 1995 in the following amounts: Mr. Gary Davidson -- $15,950; Mr. Booty -- $15,950; Mr. Collins -- $12,000; Mr. Espley-Jones -- $7,280; and Mr. Eric Davidson -- $2,892. There were no contributions made in the fiscal years ended March 31, 1997 and 1996.

(5) As of the date of Mr. Gary Davidson's resignation as President and Chief Executive Officer of the Company in October 1997, options granted to Mr. Gary Davidson in fiscal 1996 covering 33,695 shares of Common Stock had vested. Options granted to Mr. Gary Davidson in fiscal 1996 covering 67,390 shares of Common Stock and all of the options granted to Mr. Gary Davidson in fiscal 1997 were terminated upon such resignation.

(6) Mr. Booty retired as President of the Company on September 30, 1996 and was not an employee of the Company from October 1, 1996 through March 31, 1997. His bonus reflects the bonus earned under his employment agreement, but his salary does not include compensation paid to Mr. Booty as a consultant from and after his retirement date of September 30, 1996 through March 31, 1997. Mr. Booty's compensation as a consultant is discussed in "-- Employment Agreements."

(7) Ms. Muldoon joined the Company in September of 1994.

(8) Regarding options to purchase Common Stock granted to Mr. Eric Davidson, options to purchase 30,655 shares were granted at an exercise price of $15.40 per share, 10% higher than their fair market value as of the date of grant, October 17, 1995.

Option Grants in Last Fiscal Year

The following table sets forth certain information regarding options granted during fiscal 1997 to the Named Executive Officers pursuant to the 1995 Stock Option Plan.

<TABLE>
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NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR(2)	EXERCISE PRICE PER SHARE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(3)	
					5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Gary L. Davidson(4).....	10,000	2.6%	$ 11.25	10/17/06	$ 70,751	$179,296

John A. Booty(5).....	--	--	--	--	--	--
David P. Collins.....	10,000	2.6%	$ 11.25	10/17/06	70,751	179,296
Graham P. Espley-Jones.....	10,000	2.6%	$ 11.25	10/17/06	70,751	179,296
Sheila M. Muldoon.....	20,000	5.1%	$ 11.25	10/17/06	141,501	358,592
Eric K. Davidson.....	20,000	5.1%	$ 11.25	10/17/06	141,501	358,952

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(1) These options were granted for a term of 10 years, subject to termination in certain events related to termination of employment, and become exercisable in four annual installments beginning on October 17, 1998.

(2) In fiscal 1997, the Company granted options to purchase an aggregate of 389,000 shares under the 1995 Stock Option Plan and this number was used in calculating the percentage set forth in this column. During fiscal 1997, options to purchase 188,390 shares under the 1995 Stock Option Plan were canceled due to termination of employment.

(3) Assumed rates of stock price appreciation are calculated based on requirements promulgated by the Securities and Exchange Commission and are for illustrative purposes only. Actual stock prices will vary from time to time based upon market factors and the Company's financial performance. There can be no assurance that the assumed rates of appreciation will be achieved.

(4) Options granted to Mr. Gary Davidson in fiscal 1997 terminated upon Mr. Gary Davidson's resignation as President and Chief Executive Officer of the Company in October 1997.

(5) Mr. Booty retired as President of the Company on September 30, 1996, prior to the granting of options in fiscal 1997.

Fiscal Year-End Option Values.

None of the Named Executive Officers exercised options during fiscal 1997. The following table sets forth certain information regarding options held as of the end of such fiscal year by each of the Named Executive Officers.

			NUMBER OF UNEXERCISED OPTIONS AT YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT YEAR-END(1)	
NAME	ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Gary L. Davidson.....	--	--	33,695	77,390(2)	--	--
John A. Booty.....	--	--	33,695	--	--	--
David P. Collins.....	--	--	19,846	49,693	--	--
Graham P. Espley-Jones.....	--	--	11,206	32,412	--	--
Sheila M. Muldoon.....	--	--	--	30,000	--	--
Eric K. Davidson.....	--	--	2,770	47,885	--	--

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(1) Options are "in-the-money" if the fair market value of the underlying securities on that date exceeds the exercise price of the option. The amount set forth represents the difference between the fair market value of the securities underlying the options on March 31, 1997, based on the last sale price of $9.75 per share of Common Stock on that date (as reported on the Nasdaq National Market) and the exercise price of the options, multiplied by the applicable number of options, without giving effect to the diminution of value attributable to the restrictions on such stock.

(2) Mr. Gary Davidson's unexercisable options terminated upon his resignation as

President and Chief Executive Officer of the Company in October 1997.

Employment Agreements

The Company entered into employment agreements with the Named Executive Officers. Employment agreements with Messrs. Gary Davidson, Booty, Collins and Espley-Jones (referred to collectively as the "Four Executive Officers") commenced October 1, 1995 and provide for an initial termination date of September 30, 1998; however, the employment agreements of Messrs. Davidson, Collins and Espley-Jones provide that each of them be given at least two years' notice prior to the termination date. Mr. Collins' agreement will terminate as of October 1, 1999. As discussed below, the employment agreement with Mr. Booty was terminated on October 1, 1996 after Mr. Booty's retirement as an officer of the Company, and the employment agreement with Mr. Gary Davidson was terminated on October 13, 1997 after Mr. Davidson resigned as an officer of the Company.

The agreements with the Four Executive Officers require the Four Executive Officers to devote their full productive time to the Company during the term of the agreements and to refrain from competing with the Company in the business of assisted living or long-term healthcare for a period of one year following expiration of the term of the agreements. Such employment agreements include provisions for a base salary paid on a monthly basis (the "Base Salary"), annual increases in Base Salary based on increases in the Consumer Price Index, guaranteed bonuses each quarter equal to 6.25% of Base Salary (the "Minimum Bonus") (Mr. Espley-Jones does not receive Minimum Bonuses), and additional bonuses no later than May 1 of each year,

determined in the discretion of the Board, based on earnings of the Company and other criteria as determined by the Compensation Committee of the Board. No discretionary bonuses were earned by the Four Executive Officers. Each of Messrs. Davidson, Collins and Espley-Jones were granted certain stock options during fiscal 1997. The employment agreements provide that the Company may terminate any of the Four Executive Officers without cause by making such individual a cash payment equal to the greater of (i) one year's Base Salary and, if applicable, Minimum Bonus, or (ii) the current annual Base Salary and, if applicable, Minimum Bonus divided by 12 and multiplied by the number of remaining months under the employment agreement, and, in addition, the payment by the Company of premiums of COBRA benefits for the maximum period of eligibility. The agreements further provide that if any of the Four Executive Officers voluntarily terminates his employment with the Company, he will receive a lump-sum payment equal to 3 months' Base Salary. The covenant not to compete discussed above is not applicable, however, in the event severance pay is waived.

Mr. Davidson's employment agreement was terminated upon his resignation as the Chairman, Chief Executive Officer and President and as a director of the Company effective as of October 13, 1997. In connection with Mr. Davidson's resignation, the Company and Mr. Davidson entered into a Confidential Separation Agreement dated as of October 13, 1997 (the "Separation Agreement"). Under the Separation Agreement, Mr. Davidson was paid $526,100 on October 24, 1997 and will be paid an additional $526,100 on January 2, 1998. The Separation Agreement contains customary non-disparagement and confidentiality provisions. Concurrently with the execution of the Separation Agreement, Mr. Davidson and the Company executed a mutual release of all claims against one another.

Mr. Booty's employment agreement was terminated upon his retirement as of October 1, 1996. Following the termination of Mr. Booty's employment agreement, the Company and Mr. Booty entered into a consulting agreement under which it was agreed that Mr. Booty would be paid varying amounts not to exceed $30,000 per month through September 30, 1997 and $15,000 per month thereafter through September 30, 1998. Upon Mr. Booty's appointment as interim President and Chief Executive Officer of the Company, the consulting agreement was amended to provide that Mr. Booty will be paid a salary of $29,250 per month during his term as an interim officer of the Company, and will be compensated at a rate of $15,000 per month for the 18 months following his term as interim officer. The consulting agreement further provides that upon a "change of control" (as described in " -- Change in Control Arrangements") at any time during the term of the agreement, Mr. Booty will be paid in full the entire amount outstanding under the consulting agreement.

The Company has entered into written employment agreements with Ms. Muldoon and Mr. Eric Davidson (the "Two Executive Officers") commencing April 23, 1997. The agreements require the Two Executive Officers to devote their full productive time to the Company during the term of the agreement and to refrain from competing with the Company in the business of assisted living or long-term healthcare for a period of one year following expiration of the term of the agreement.

The agreements for the Two Executive Officers include provisions for a base salary paid on a monthly basis (the "Base Salary"), annual increases in Base Salary and bonuses no later than December 31 of each year, as determined at the discretion of the Compensation Committee following receipt of recommendations therefor from management of the Company. The Two Executive Officers have also been granted certain stock options. The Company may terminate the Two Executive Officers without cause by making them a cash payment equal to 12 months' Base Salary. If either of the Two Executive Officers voluntarily terminates employment with the Company such person will receive a lump-sum payment equal to three months' Base Salary. The covenant not to compete discussed in the preceding paragraph is not applicable, however, in the event severance pay is waived.

On December 5, 1997, the Company entered into an employment agreement with Howard G. Phanstiel. Mr. Phanstiel's employment agreement has an initial termination date of December 5, 2000; provided, however, that if the Company has not given Mr. Phanstiel written notice of the Company's intent to terminate the agreement at least two years prior to the termination date, the term will automatically be extended for successive periods of one year. Mr. Phanstiel's employment agreement requires him to devote his full productive time to the Company during the term of the agreement, unless otherwise permitted by the Board,

and to refrain from competing with the Company in the business of assisted living or long-term healthcare for a period of one year following expiration of the term of the agreement.

Mr. Phanstiel's employment agreement provides for a base salary, performance-based increases in the base salary each year beginning in 1999, a guaranteed bonus of 37.5% of the then current base salary, and additional bonuses based on the achievement of agreed-upon targets in the range of 12.5% to 62.5% of the then current base salary. Mr. Phanstiel was granted stock options to purchase 150,000 shares of Common Stock upon the execution of his employment agreement and, on January 2, 1998, will receive additional options to purchase 100,000 shares of Common Stock. Mr. Phanstiel's employment agreement provides that the Company may terminate Mr. Phanstiel without cause by making him a payment equal to the greater of (i) the sum of his current annual base salary plus minimum bonus and (ii) the sum of his current annual base salary plus his minimum bonus divided by 12 and multiplied by the number of remaining months under the employment agreement, and, in addition, the payment by the Company of premiums of COBRA benefits for the maximum period of eligibility. The agreement further provides that if Mr. Phanstiel voluntarily terminates his employment with the Company, he will receive a lump-sum payment equal to three months' base salary. The covenant not to compete discussed above is not applicable, however, in the event severance pay is waived.

Change in Control Arrangements

In fiscal 1997, the Compensation Committee took action to better assure that the Named Executive Officers would continue to provide independent leadership consistent with the Company's best interests in the event of an actual or threatened change of control of the Company. The employment agreements of each of the Named Executive Officers provide certain protections in the event of a change in control. A "change in control" of the Company is defined as a change in ownership such that any one person, or more than one person acting as a group, would have possession of more than 50% of the total fair market value or the total voting power of the capital stock of the Company; or a change in effective control of the Company such that any one person or more than one person acting as a group would acquire ownership of capital stock possessing 50% or more of the voting power of the Company, or a majority of the members of the

Board was replaced during any 12 month period by directors whose appointment or election was not endorsed by a majority of the members of the Board prior to the date of such appointment or election; or a change in the ownership of a substantial portion of the Company's assets such that any one person or more than one person acting as a group would acquire, within a 12 month period, assets from the Company having a total fair market value equal to or more than 33 1/3% of the total fair market value of all of the assets of the Company immediately prior to such acquisitions. Upon any "change in control," the Named Executive Officers (other than Mr. Booty, who will be entitled to payment in full of all sums due under his consulting agreement with the Company) are entitled to receive a lump sum equal to three times the total compensation received during the immediately preceding calendar year. In addition, the stock option agreements between the Company and the Named Executive Officers (other than Mr. Booty) include a provision authorizing the Compensation Committee to accelerate vesting of the options, and the Compensation Committee has authorized such vesting acceleration in the Employment Agreements discussed above.

Howard G. Phanstiel's employment agreement also provides for certain protections in the event of a change in control. Mr. Phanstiel's employment agreement defines a "change of control" as any of the following: (i) the acquisition by any person or group of greater than 50% of the combined voting power of the Company's outstanding voting securities; (ii) the acquisition by any person other than Prometheus of greater than 20% of the Company's outstanding voting securities if the Board determines that a change of control has occurred; (iii) the replacement of a majority of the members of the Board during any 12 month period by directors whose appointment or election was not endorsed by a majority of the members of the Board prior to the date of such appointment or election; or (iv) the date on which any person acquired assets from the Company that have a total fair market value equal to or more than 33 1/3% of the total fair market value of all of the assets of the Company. Following a change of control, in the event that Mr. Phanstiel is terminated for any reason, with or without cause, or voluntarily within nine months of the change of control, or involuntarily within 12 months of a change of control, in lieu of his severance payment, if any, the Company will pay Mr. Phanstiel the sum of (i) his base salary, (ii) his accrued vacation pay, (iii) reimbursement for expenses through the date of the change of control, and (iv) either three times the sum of his base salary, minimum bonus, additional bonus, and other compensation received in the preceding calendar year, plus two times the minimum bonus or, if the change of control occurs before December 5, 1998, three times his base salary plus six times the minimum bonus. In addition, in the event that Mr. Phanstiel's employment is terminated voluntarily within nine months of a change of control or involuntarily within 12 months of a change of control, any stock options held by Mr. Phanstiel will become fully vested.

SECURITY OWNERSHIP OF DIRECTORS AND NAMED EXECUTIVE OFFICERS

The following table sets forth certain information regarding beneficial ownership of the Common Stock as of December 18, 1997 (based on a total of 15,848,498 outstanding shares of Common Stock) by (i) each of the Company's directors, (ii) each of the Named Executive Officers and (iii) all executive officers and directors as a group. Except as otherwise indicated, the Company believes the persons named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

Amounts and percentages listed below include warrants and options that are exercisable within 60 days of December 18, 1997.

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER(1)	SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES BENEFICIALLY OWNED
<S>	<C>	<C>
Robert P. Freeman(2)	6,183,238	39.1%
Murry N. Gunty(2)	6,183,238	39.1%
Kenneth M. Jacobs(2)	6,183,238	39.1%
Gary L. Davidson(3)(4)	969,826	6.1%
John A. Booty(3)(5)	699,246	4.4%

David P. Collins(3)(6)	558,939	3.5%
Graham P. Espley-Jones(7)	274,964	1.7%
Howard G. Phanstiel	0	--
Sheila M. Muldoon(8)	3,500	*
Eric K. Davidson(9)	14,538	*
R. Bruce Andrews(10)	5,000	*
Maurice J. DeWald(10)	6,000	*
John J. Rydzewski(10)(11)	10,000	*
All directors and executive officers as a group (13 persons)	8,717,751	54.5%

</TABLE>

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* Less than 1%

(1) Except where otherwise noted, the address of the Company's directors, executive officers and selling shareholders is c/o ARV Assisted Living, Inc., 245 Fischer Avenue, D-1, Costa Mesa, California 92626.

(2) Messrs. Freeman and Gunty are the President and a Vice President, respectively, of LFREI, the managing member of Prometheus. Mr. Jacobs is a Managing Director of Lazard Freres & Co., LLC, the managing member of LFREI. Each of Messrs. Freeman, Gunty and Jacobs have shared voting and investment power over the securities held by Prometheus and each may be deemed to beneficially own Prometheus' shares. Each of Messrs. Freeman, Gunty and Jacobs disclaims beneficial ownership of Prometheus' shares except to the extent of their pecuniary interest therein.

(3) Excludes 402,257 shares owned of record by the Company's employee stock ownership plan (the "ESOP"), of which Messrs. Booty and Collins are trustees.

(4) Of the 969,826 shares beneficially owned by Mr. Gary Davidson, 593,029 are held of record by the Davidson Family Partnership, 343,102 shares are held by the Gary L. Davidson Funded Revocable Living Trust, and the remaining 33,695 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 9,724 shares beneficially owned by Mr. Gary Davidson held of record by the ESOP as of December 18, 1997.

(5) Of the 699,246 shares beneficially owned by Mr. Booty, 107,773 are held of record by the Booty-Jones Family Partnership (of which Mr. Booty is the managing partner and holds a pecuniary interest equal to 1% thereof), 418,028 shares are held by the Booty Family Trust (as to which Mr. Booty has shared voting and investment power), 750 shares are held in Mr. Booty's name alone, 69,500 shares are owned by the Karen A. Booty Charitable Remainder Trust of which Mr. Booty has sole voting and investment power, and the remaining 69,500 shares are owned by the John A. Booty Charitable Remainder Uni Trust (of

which Mr. Booty has sole voting and investment power), and the remaining 33,695 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 9,724 shares beneficially owned by Mr. Booty held of record by the ESOP as of December 18, 1997.

(6) Of the 558,939 shares beneficially owned by Mr. Collins, 98,678 are held of record by the D & V Collins Family Limited Partnership (as to which Mr. Collins has shared voting and investment power), 408,591 shares are held by the Collins Family Community Property Trust (as to which Mr. Collins has shared voting and investment power), 11,978 shares are held by the David P. Collins Annuity Trust, and the remaining 39,692 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 8,831 shares beneficially owned by Mr. Collins held of record by the ESOP on December 18, 1997.

(7) Of the 274,964 shares beneficially owned by Mr. Espley-Jones, 22,412 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 5,672 shares beneficially owned by Mr. Espley-Jones held of record by the ESOP as of December 18, 1997.

(8) Of the 3,500 shares beneficially owned by Ms. Muldoon, 1,000 are held of record by Charles Schwab & Co. Inc. IRA Rollover and 2,500 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 73 shares beneficially owned by Ms. Muldoon held of record by the ESOP as of December 18, 1997.

(9) Of the 14,538 shares beneficially owned by Mr. Eric Davidson, 4,000 are held of record by Eric K. Davidson UTA Fidelity 401(k) and 103 are held by Eric K. Davidson UTA Principal Financial 401(k) and 10,435 shares are subject to options exercisable within 60 days of December 18, 1997. Excludes 405 shares beneficially owned by Mr. Eric Davidson held of record by the ESOP on December 18, 1997.

(10) Messrs. Andrews, DeWald, Peters and Rydzewski, as non-employee directors, have options exercisable within 60 days of December 18, 1997 to purchase 5,000 shares.

(11) 5,000 of the shares beneficially owned by Mr. Rydzewski are held of record by Merrill Lynch Custodian FBO Benedetto, Gartland & Greene, Inc. SEP FBO John J. Rydzewski.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

As of December 18, 1997, the following persons are known to the Company to be the beneficial owners of more than five percent of the Company's Common Stock. The numbers shown on the table should be interpreted in light of the related footnotes.

<TABLE>
<CAPTION>

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNERS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>	<C>
Common	Prometheus Assisted Living LLC(1) Thirty Rockefeller Plaza, 63rd Floor New York, NY 10020	6,183,238	39.1%
Common	Emeritus Corporation(2) 3131 Elliott Avenue, Suite 500 Seattle, WA 98121	1,077,200	6.8%
Common	Morgan Stanley, Dean Witter, Discover & Co.(3) 1585 Broadway New York, NY 10036	965,197	6.1%

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(1) According to the Schedule 13D filed on December 12, 1997 by Prometheus.

(2) According to the Schedule 13D filed on November 10, 1997 by Emeritus Corporation, a Washington corporation ("Emeritus"), Emeritus is the beneficial owner of 1,077,200 shares and has the sole power to vote and dispose of the shares. Emeritus has disclaimed any ownership of 200 shares held by Kelly Price, Chief Financial Officer of Emeritus, and 1,000 shares held by Stanley L. Baty, the son of Daniel R. Baty, the Chief Executive Officer of Emeritus.

(3) According to the Schedule 13G filed on July 14, 1997 by Morgan Stanley, Dean Witter, Discover & Co. ("Morgan Stanley"), a Delaware corporation and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 (the "Investment Advisors Act"), is the beneficial owner of 965,197 shares of the Common Stock of the Company. Accounts managed on a discretionary basis by wholly-owned subsidiaries of Morgan Stanley, including Miller Anderson & Sherred LLP, a Delaware limited liability partnership and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, are known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from, the

sale of such securities. No such account holds more than 5 percent of the class.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Two members of the Compensation Committee during fiscal 1997, Messrs. DeWald and Peters, are not present or former employees of the Company and have no relationships with the Company requiring disclosure pursuant to rules promulgated by the Securities and Exchange Commission. Regarding Mr. Rydzewski, the Company retained Benedetto, Gartland and Company, Inc., of which Mr. Rydzewski is a principal, to act as financial adviser concerning the Company's investment in Senior Income Fund, L.P., a Delaware limited partnership that owns four congregate care facilities in Southern California.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

To address certain structural issues in connection with tax credit partnerships, Pacific Demographics Corporation ("Pacific Demographics") (formerly ARVTC, Inc.), was formed in August 1994 by Messrs. Gary Davidson, Booty, Collins and Espley-Jones, as well as two former Company officers, to provide certain development services for these partnerships in exchange for cash and deferred development fees generated by the tax credit partnerships. The Company provided services to Pacific Demographics for which it received certain fees from Pacific Demographics. The Company believes that these arrangements were fair to the Company and that the compensation paid to Pacific Demographics by the tax credit partnerships and by Pacific Demographics to the Company appropriately reflected the services rendered by Pacific Demographics and the Company, respectively, and the risks incurred by the shareholders of Pacific Demographics who provided the guarantees for these projects.

In order to lessen potential conflicts of interest, in July 1995, the Company's then principal shareholders, who included but were not limited to Messrs. Gary Davidson, Booty, Collins and Espley-Jones sold Pacific Demographics, Inc. to the Company for $100,000 in cash. In addition, they formed a general partnership, Hunter Development ("Hunter") and became co-developers with Pacific Demographics and retained the right to receive 20% of all developer fees up to a maximum of $850,000. Subsequently each of the general partners of Hunter assigned his interest in Hunter to Redhill Development, LLC. Of the maximum amount of $850,000 which could be distributed, approximately $198,400 has been distributed through October 31, 1997 of which Messrs. Gary Davidson, Booty, Collins and Espley-Jones have received approximately $55,300, $55,300, $32,500 and $18,400, respectively.

The Company utilizes the services of J&D Design, as well as others, for interior design work at its facilities. The principal of J&D Design is Joan Davidson, wife of Senior Vice President Eric Davidson and daughter-in-law of former Chairman, President and Chief Executive Officer Gary Davidson. Services provided by J&D Design include design work and the purchase of furniture, fixtures and equipment ("FF&E") for developed facilities and rehabilitation of existing or newly acquired facilities. In fiscal 1997 and through October 31, 1997, the Company paid J&D Design approximately $863,000 for design services and reimbursement of costs for FF&E. In fiscal 1996 and fiscal 1995, the total paid by the Company to J&D Design approximated $328,000 and $57,000, respectively. The Company does not expect to enter into any new contractual arrangements with J&D Design.

Mr. R. Bruce Andrews, a member of the Board, is President of Nationwide Health Properties, Inc. ("NHP"), a Health Care REIT. NHP is the owner of 16 assisted living facilities which are leased to the Company. Of that number, leases for 13 assisted living facilities were entered into prior to November 29, 1995, the date Mr. Andrews became a Board member, and leases for three assisted living facilities were entered into

during Mr. Andrews' tenure as Board member. Lease payments have aggregated approximately $15.6 million in fiscal 1997 and through October 31, 1997 and $3.7 million from November 1, 1995 through March 31, 1996.

John J. Rydzewski, a Director of the Company and member of the Audit Committee and the Compensation Committee, is a principal in the investment

banking firm of Benedetto, Gartland and Company, Inc. ("BG&C"). The Company retained BG&C to provide advice concerning the Company's investment in Senior Income Fund L.P., a Delaware limited partnership owning four congregate care facilities in Southern California.

Robert P. Freeman and Murry N. Gunty, each a Director of the Company, are the President and a Vice President, respectively, of LFREI, the managing member of Prometheus. Kenneth M. Jacobs, also a Director of the Company, is a Managing Director of Lazard Freres & Co. LLC, the managing member of LFREI. On October 29, 1997, Prometheus committed to purchase $60,000,000 aggregate principal amount of the Company's 6.75% Convertible Subordinated Notes due 2007. Pursuant to a related agreement, Prometheus previously purchased 1,921,012 shares of Common Stock for an aggregate purchase price of $26,894,168. In connection with these transactions, the Company entered into a registration rights agreement with Prometheus and the Stockholders Agreement with Prometheus and LFREI. Pursuant to the registration rights agreement between the Company and Prometheus, the Company granted Prometheus limited demand registration rights to facilitate the resale of certain securities owned by it and certain piggyback rights to sell a portion of its securities in connection with certain offerings of securities of the Company.

Pursuant to the Stockholders Agreement, as of October 30, 1997, the Board was expanded to its current authorized number of nine members, and Messrs. Freeman, Jacobs and Gunty, each nominees of Prometheus, were appointed as Directors of the Company. Until the occurrence of a Termination Event (which shall occur if either (i) Prometheus no longer owns at least 5% of the Common Stock on a fully diluted basis or (ii) Prometheus no longer owns at least $25 million of Common Stock), at each annual or special meeting of shareholders of the Company, Prometheus will have the right pursuant to the Stockholders Agreement and the Company's Bylaws to designate three nominees to the Board if the Board is a single class or one designee per class if the Board is divided into three classes. The Company has agreed to support the nomination and the election of each designee of Prometheus to the Board, and the Company will exercise all authority under applicable law to cause each designee of Prometheus to be elected to the Board.

The Stockholders Agreement further provides that during a standstill period of three years (which period is subject to early termination in certain circumstances), Prometheus will be subject to certain limitations and restrictions relating to, among other matters, acquisitions of additional shares of Common Stock (generally limiting Prometheus to beneficially owning no more than 49.9% of the shares of Common Stock on a fully diluted basis), transfers of Common Stock held by Prometheus and seeking representation on the Board other than as contemplated by the Stockholders Agreement. In addition, during the standstill period, Prometheus is required to vote all shares of Common Stock owned by it representing an aggregate ownership in excess of 35.8% of the outstanding shares of Common Stock in one of the following two manners: (x) in accordance with the recommendation of the Board or (y) proportionally in accordance with the votes of the other holders of Common Stock. Prometheus is also required to vote its shares of Common Stock in favor of the election of all directors nominated by the nominating committee of the Company, if any, or the Board, provided such nominations are in accordance with certain provisions of the Amended Stockholders Agreement.

EXHIBIT 2

[LETTERHEAD OF ARV ASSISTED LIVING]

FOR IMMEDIATE RELEASE

CONTACT: Mitch Gellman
Director of Investor Relations
714/435/4322
E-Mail: investor.relations@arvi.com

ARV ASSISTED LIVING REJECTS EMERITUS OFFER AS INADEQUATE
-- INTERESTS OF SHAREHOLDERS BEST SERVED BY ARV'S CONTINUED INDEPENDENCE --

COSTA MESA, Calif. -- January 5, 1998 -- ARV Assisted Living, Inc. (Amex:SRS) announced today that its Board of Directors voted unanimously to recommend ARV shareholders reject Emeritus Corporation's highly conditional $17.50 per share tender offer (the "Emeritus Offer") and Emeritus' proposed second-step "squeeze out" merger as inadequate and not in the best interests of ARV shareholders.

The Board stated that the interests of ARV shareholders would best be served by the Company remaining an independent, publicly-traded company.

In its recommendation to ARV shareholders, the Board cited, among many other things:

- The Emeritus Offer does not reflect the inherent value of ARV.

- The opinion of its financial advisors, Salomon Smith Barney, that the Emeritus Offer is inadequate.

- Continued pursuit of ARV's strategic plan, including refinements that may result from management's ongoing review, that produce greater long-term value for ARV shareholders than proposed Emeritus transactions.

- The numerous and significant conditions contained in Emeritus' proposal, several of which are subject to the sole discretion of Emeritus and EMAC Corp., a wholly-owned subsidiary of Emeritus.

- The Board's belief that, considering Emeritus' financial condition, Emeritus may not be able to secure financing for the proposed Emeritus transactions.

- The Board's concern that the consideration to be received by ARV shareholders in the proposed squeeze out merger could consist, in whole or in part, of securities of Emeritus.

"ARV intends to remain independent and pursue its business strategy," said Howard G. Phanstiel, Chairman and Chief Executive Officer of ARV. "Management continues to refine ARV's strategic business plan and actively explore opportunities to enhance the value for its shareholders."

ARV Assisted Living, Inc. was founded in 1980. ARV is one of the nation's leading providers of assisted living. The company operates 48 communities containing about 6,150 units in 10 states. It has six communities, containing 756 units, under construction in California, Florida, Massachusetts and Nevada.

# # #

EXHIBIT 3

ARV LETTERHEAD

January 5, 1998

Dear Shareholder:

On December 19, 1997, a subsidiary of Emeritus Corporation ("Emeritus") announced a highly conditional tender offer (the "Offer") for all of the outstanding shares of ARV's common stock at a price of $17.50 per share in cash. Emeritus has also announced that, if the offer succeeds, it will merge ARV with a wholly-owned subsidiary of Emeritus (such merger, together with the Offer, the "Emeritus Transaction"). In such proposed merger, all shares of ARV common stock not tendered and purchased pursuant to the Offer would be converted into the right to receive an amount in cash equal to the price per share paid pursuant to the Offer.

Your Board of Directors has unanimously determined that the Emeritus Transaction, including the Offer, is inadequate and not in the best interests of ARV and its shareholders. Accordingly, the Board of Directors unanimously recommends that you reject the Emeritus Transaction and not tender your shares to Emeritus pursuant to the Offer.

In arriving at their decision that the Emeritus Transaction, including the Offer, is inadequate and not in the best interests of ARV, your Board gave careful consideration to the interests of ARV's shareholders and all other factors permitted by applicable law (including the long and short-term interests of ARV and its shareholders, including the possibility that these interests may be best served by the continued independence of ARV). Your Board reviewed, among other items, the opinion of Salomon Smith Barney, ARV's financial advisors, that the Emeritus Transaction, including the Offer, is inadequate. We urge you to read carefully the attached Schedule 14D-9 in its entirety so that you will be fully informed as to the Board's recommendation.

Your Board of Directors and the management of ARV believe that the Offer fails to recognize the inherent value of ARV. The Board concluded that the interests of ARV and its shareholders would best be served if ARV were to remain an independent company. In light of the Board's decisions, management of ARV, together with ARV's advisors, are continuing to refine ARV's strategic plan and are actively exploring opportunities to enhance the value of ARV.

Your Board of Directors and the management of ARV are also concerned by the numerous conditions which Emeritus has placed on the Offer, including, but not limited to, the right to renegotiate the price to be paid in the Offer or withdraw the Offer if Emeritus is unable to obtain financing on satisfactory terms or if any material adverse change, as determined in Emeritus' discretion,

occurs in the operations or prospects of ARV. Your Board of Directors is concerned that the scope of the conditions suggests that Emeritus may intend to renegotiate the terms of the Offer or pay a portion or all of the purchase price in securities of Emeritus, rather than in cash.

Furthermore, if the Offer is successful, the resulting change in control of ARV could trigger default provisions in more than two-thirds of ARV's existing facility leases. Such defaults would permit the lessors under the leases to terminate the leases and, at a minimum, almost certainly would result in significantly higher lease costs to ARV. Your Board of Directors and the management of ARV believe that, in light of Emeritus' historical financial results, the lessors, at a minimum, would seek to renegotiate the terms of the leases to raise the rental rates to current market levels, to ARV's disadvantage.

Please be assured that your Board of Directors and the management of ARV will continue to act in the best interests of ARV and its shareholders. Your Directors thank you for your support.

Sincerely,

/s/ HOWARD G. PHANSTIEL
Howard G. Phanstiel
Chairman of the Board and Chief Executive Officer

EXHIBIT 4

ARV LETTERHEAD

January 5, 1998

Dear Shareholder:

By now you have heard their pitch -- vote for us and you will get $17.50 per share in immediate cash. I am writing to tell you, DON'T BE FOOLED. DON'T VOTE FOR EMERITUS'S SLATE.

We don't believe that Emeritus is offering you $17.50 in immediate cash. They are offering you a pig in a poke. Their offer is filled with condition after condition that gives Emeritus in its sole discretion the right to walk away from that offer. And, if they do, or perhaps I should say when they do, what will you have? You will not receive $17.50 in cash. You may get less cash, or Emeritus stock instead of cash. Even worse, victory by an Emeritus slate triggers a default in more than one-half of ARV's leases on existing facilities, an event which jeopardizes ARV's right to occupy the leased premises and is almost certain to result in significantly higher lease costs to ARV. Thus, if Emeritus fails to consummate any transaction with ARV (as occurred recently when Emeritus attempted a friendly merger with another assisted living company), you may be left with ARV stock devalued by the potential loss of properties due to terminated leases or the likely huge additional expenses resulting from the forced renegotiation of a significant number of those leases.

If you vote for Emeritus's slate, one thing you know you will have is a board of directors whose primary loyalty is to Emeritus, not to you. Ask yourself, when that board is in place, how will your investment be protected? DON'T BE FOOLED. DON'T VOTE FOR EMERITUS'S SLATE.

A little over one month ago, I took the job as your Chairman and Chief Executive Officer because I believed in ARV; I believed in the opportunity it has to thrive in a market that is certain to grow in the coming years; I believed in the opportunity created by ARV's strategic relationship with Lazard Freres; and, I believed that new leadership would make a difference at a company that had lost focus and was underperforming in part due to a lack of strategic direction.

I am convinced more than ever that I was right. In the short time since I joined the Company, ARV has received an offer to buy its Rehab Therapy business. The sale of this business by ARV will be accretive to earnings on a continuing basis as a result of continuing contracts with the buyer to provide rehabilitation services to ARV facilities. We have also acquired one new development property and decided to commence construction on a second, both of which I am confident will increase our earnings in 1999. And, we have begun to

cut our overhead expenses. ALL THAT IN MY FIRST COUPLE OF WEEKS.

Now, we are in the process of cementing a strategic relationship with Kapson Senior Quarters, a leading East Coast based assisted living provider, so that ARV can reduce its development costs and at the same time increase its earning potential through the addition of new sites to manage and lease. We have also sold an existing community that was a drain on our earnings and a development site that does not fit our current cluster strategy. We are now exploring acquisitions of new facilities that could increase our market penetration in some of our key markets. ALL THAT IN ONE MONTH.

As an investor, or as the custodian of the money of those for whom you invest, you must decide whom you want to run this company. Do you want Emeritus, with its illusory promise of immediate cash, its reckless proxy contest which exposes over one-half of ARV's leases to default and thus termination or renegotiation, its own track record of missing earnings estimates and a stock that in 1996 and 1997 underperformed its peers dramatically? OR, do you want your Board members, many of whom have significant holdings of ARV stock, and your new CEO, who chose your company because of the significant opportunity it presents? I think the choice is clear.

THE EMERITUS OFFER IS A PLOY;
THEY WILL NOT PAY YOU $17.50 PER SHARE IN IMMEDIATE CASH

Your Board has considered Emeritus's tender offer and determined that it is not in the best interests of ARV's shareholders. Why? First, there are obvious concerns about the price, given the opportunities that your Board and I believe lie ahead for ARV. But, even more importantly, your Board believes the offer is simply not a real one for $17.50 per share in cash. The Emeritus offer is hopelessly conditional. Among other things, it is subject to Emeritus obtaining $400 million of financing on terms satisfactory to it in its sole discretion. What kind of an offer is that?

On December 23, I wrote to Emeritus asking it to provide us information that would enable your Board to assess the likelihood that Emeritus would obtain the financing it needs on terms satisfactory to it. When they finally answered me last Friday, they refused to show us their commitment letters, refused to say anything about their financing arrangements after the first $110 million and provided ARV a lengthy list of the "more significant conditions" to obtaining a loan for even that $110 million tranche. The list includes at least two conditions we are nearly certain will provide Emeritus's financial institution the right to walk away if Emeritus gains control of ARV's Board of Directors. In fact, one of the conditions is that there be no material adverse change in ARV's business. However, as Emeritus knows only too well, if it buys ARV, or even elects its nominees to ARV's Board, a material adverse change in ARV's business will occur because of the defaults occasioned in ARV's leases upon a change of control.

Another condition of the offer makes clear that it is not a real cash offer of $17.50 per share. Emeritus states that its offer is conditioned on rescission of the issuance of shares to Lazard Freres pursuant to ARV's redemption of the $60 million note owed to Lazard Freres. The only way this can happen is through a final court order compelling Lazard Freres to deliver the shares back to ARV in exchange for a re-executed $60 million note. This simply cannot happen any time soon. Do you seriously believe that Lazard Freres will not appeal any adverse ruling? So, you have to ask yourself, is Emeritus making an offer to buy your shares or not?

If you read Emeritus's tender offer document closely, you will see that Emeritus calculates that it would cost Emeritus $14 million more to buy ARV if the issuance of those shares is not cancelled. Emeritus goes on to reserve the right to reduce the price it is willing to pay to ARV's shareholders by this $14 million if the issuance of the shares is not cancelled. This is a reduction of almost $.85 per share After reviewing this language, your Board concluded that Emeritus had framed its offer to give it two more ways out (in addition to the financing out I've already discussed); first, Emeritus can simply walk away because there will be no final court order by the end of January cancelling the shares Lazard Freres now owns and, second, it can cancel its offer and reduce the price it is willing to pay in any new offer from $17.50 per share to at least $16.65 per share.

So, you might ask, what is Emeritus's plan? Good question. Again, on December 29, I wrote to Emeritus asking its CEO to tell me what it plans to do when, inevitably, it becomes clear that there will be no final court order any time soon that requires Lazard Freres to return the shares it now owns. The response I got was flabbergasting. If this occurs, Emeritus said, the ARV Board will have an opportunity to react to a change in the purchase price. BUT IF EMERITUS HAS ITS WAY, ITS NOMINEES WILL CONTROL ARV'S BOARD AND BE IN A POSITION TO ACCEPT THAT REDUCED PRICE.

Your Board and its financial and legal advisors have carefully reviewed the Emeritus tender offer and the letter they sent us regarding their financing. I could go on and on describing the multiple unusual conditions that Emeritus has attached to its offer or that operate as an escape hatch for Emeritus's financiers. But what is critical is that, after a careful review, your Board has concluded that the odds of Emeritus paying you $17.50 per share in immediate cash are remote.

Believe it or not, there is even more evidence, apart from all of the conditions to the Emeritus tender offer, to support our view that Emeritus does not intend to pay you $17.50 cash for your shares. Emeritus has been pursuing ARV since last June. At each step of the way, Emeritus has suggested in writing or orally that what it really believes to be in its best interests is a stock for stock merger.

DON'T BE FOOLED. DON'T VOTE FOR EMERITUS'S SLATE. EMERITUS IS NOT GOING TO PAY YOU $17.50 PER SHARE IN IMMEDIATE CASH IF YOU ELECT ITS SLATE OF DIRECTORS.

ELECTING EMERITUS' NOMINEES WILL SIGNIFICANTLY HARM ARV'S FINANCIAL CONDITION

If Emeritus receives enough proxies to elect its slate of directors, ARV may well suffer serious financial consequences. At least 18 of ARV's 32 leases on its existing assisted living facilities have change of control provisions that will be triggered if control of ARV's Board shifts to Emeritus's nominees. These change of control provisions allow the landlords to declare ARV's tenancy terminated. What will happen if these provisions are triggered? It is quite possible that a number of these leases will be terminated. Even if the leases are not terminated, ARV believes that, at a minimum, the landlords will seek to renegotiate lease terms to bring the rental rates up to market levels and to take into account the additional risk to them of doing business with an entity controlled by Emeritus. (Emeritus, after all, is in extremely weak financial condition -- it is losing money at a rate of $20 million per year and its stock has been flat for two years while its peer group has more than doubled in value.) ARV estimates that, even if we lose none of the facilities, our lease costs could rise by as much as $3 million per year simply by electing Emeritus's nominees to the Board. And, of course, this change in our lease costs will give Emeritus and its financiers the right to walk away from their offer.

But something even more sinister could happen. Emeritus knows about these provisions because it leases from some of the same landlords as ARV. When the landlords come knocking on ARV's door to obtain increased rents, who will be there? The answer is directors nominated by Emeritus, one of ARV's main competitors. What is to stop the Emeritus nominees from simply failing to reach agreement with these landlords, while Emeritus itself calls on those landlords and offers them a better price for their facilities? If you elect Emeritus's nominees, this could happen to ARV. Sure, you would have a lawsuit for breach of fiduciary duty (if you could prove the facts) but, ask yourself, are you willing to play this kind of Russian roulette with your investment in ARV? If you vote for Emeritus' nominees and this happens, how will you explain your vote to the people who have entrusted you with their money?

DON'T BE FOOLED. DON'T PLAY RUSSIAN ROULETTE WITH YOUR INVESTMENT IN ARV. DON'T VOTE FOR EMERITUS'S SLATE.

Emeritus wants you to vote for their slate supposedly so that slate can then implement its proposed merger with ARV. But, we all know that deals often do not close. In the case of a highly conditional, extremely leveraged transaction like that proposed by Emeritus, there is an even greater likelihood that no transaction will ever occur. This very thing has happened in a 1996 merger proposed by Emeritus with another assisted living company. Who then will run your company? Certainly not the nominees proposed by Emeritus. You, the ARV shareholders, will be left to pick up the pieces of a stock that has been battered by lease renegotiations or defaults (triggered by the election of the

Emeritus nominees) and the absence of a business plan and a management to implement a plan. What rational investor would take this risk?

WE URGE YOU TO RE-ELECT YOUR CURRENT BOARD OF DIRECTORS. PLEASE SIGN, DATE AND PROMPTLY MAIL THE WHITE PROXY CARD THAT YOU RECEIVED OR WILL RECEIVE IN THE ENCLOSED POSTAGE-PAID ENVELOPE. THANK YOU FOR YOUR SUPPORT.

IMPORTANT

DO NOT VOTE ANY BLUE PROXY CARDS YOU MAY RECEIVE FROM EMERITUS CORPORATION -- NOT EVEN TO WITHHOLD ON THE EMERITUS NOMINEES. DOING SO MAY HAVE THE EFFECT OF CANCELING YOUR VOTE FOR ARV'S NOMINEES. ALSO, DO NOT VOTE ANY GOLD PROXY CARDS.

TO BE CERTAIN YOUR VOTE WILL COUNT FOR ARV'S NOMINEES, PLEASE MARK, SIGN, DATE AND PROMPTLY MAIL ARV'S WHITE PROXY CARD THAT YOU RECEIVED OR WILL RECEIVE IN THE ENCLOSED ENVELOPE.

On Behalf of your Board of Directors,

Sincerely,

/s/ HOWARD G. PHANSTIEL
Howard Phanstiel

EXHIBIT 5

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Attorneys for Plaintiff
Emeritus Corporation

FILED
ORANGE COUNTY SUPERIOR COURT

DEC 9 1997
ALAN SLATER, Executive Officer/Clerk
BY J. GAMBOA

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF ORANGE

EMERITUS CORPORATION, a Washington corporation

Plaintiff,

V.

ARV ASSISTED LIVING, INC., a California corporation; DAVID P. COLLINS, an individual; JOHN A. BOOTY, an individual; R. BRUCE ANDREWS, an individual; JAMES M. PETERS, an individual; MAURICE J. DeWALD, an individual; JOHN J. RYDZEWSKI, an individual; ROBERT P. FREEMAN, an individual; KENNETH M. JACOBS, an individual; MURRY N. GUNTY, an individual; and HOWARD G. PHANSTIEL, an individual.

Defendants.

CASE NO. 787788

COMPLAINT FOR INJUNCTIVE AND
DECLARATORY RELIEF

JUDGE THOMAS N. THRASHER, SR.
DEPT. 13

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I.

NATURE OF THE ACTION

1. Plaintiff Emeritus Corporation ("Emeritus") brings this action against ARV Assisted Living, Inc. ("ARV"), David P. Collins, John A. Booty, R. Bruce Andrews, James M. Peters, Maurice J. DeWald, John J. Rydzewski, Robert P. Freeman, Kenneth M. Jacobs, Murry N. Gunty, and Howard G. Phanstiel (collectively, "Defendants" or, excepting ARV, the "Individual Defendants"). Defendants Collins, Booty, Andrews, Peters, DeWald and Rydzewski (collectively, the "ARV Defendants") have served together on ARV's board of directors (the "Board") since 1995. Defendants Freeman, Jacobs and Gunty were appointed to the Board on October 30, 1997, and defendant Phanstiel was appointed on or about December 5, 1997. Emeritus brings this complaint for injunctive and declaratory relief as set forth below.

2. This an action to prevent the directors of a publicly-owned California corporation from selling out their own shareholders. California law requires directors of a corporation to act as fiduciaries for the corporation's shareholders. In this case, however, the Individual Defendants have breached their fiduciary duties by taking away control of ARV from its public shareholders and depriving those shareholders of the opportunity to maximize the value of their shares. Instead of acting in the best interests of ARV's shareholders, the Individual Defendants have embarked on a program to prevent an acquisition of ARV and entrench themselves in office for their own personal benefit.

3. On July 10, 1997, Emeritus made a proposal to ARV's Board to acquire ARV's outstanding shares for a premium of their market value. However, because Emeritus' proposal would have resulted in the ARV Defendants losing control of ARV, the ARV Defendants failed to give any serious consideration to the proposal and refused to negotiate with Emeritus. Instead, the ARV Defendants took immediate and decisive steps to block Emeritus from acquiring ARV and to preserve their Board positions. These steps included entering into a complex

series of self-serving transactions described below and putting into place a "shareholders rights plan" commonly known as a "poison pill."

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4. On July 14, 1997 - four days after Emeritus' proposal - ARV announced that it had entered into a transaction with Prometheus Assisted Living, LLC ("Prometheus"), an affiliate of Lazard Freres Real Estate Investors L.L.C. ("Lazard") (the "First Prometheus Transaction"). In the First Prometheus Transaction, the ARV Defendants agreed to sell a vast amount of newly issued ARV stock to Prometheus for $14 per share. ARV's directors and senior officers also committed, subject to certain conditions, to vote their 20% holding of ARV stock in support of Prometheus' nominees to ARV's Board. In return, Prometheus would vote its sizable holding of stock in favor of keeping ARV's existing Board in office for at least another three years. This massive stock sale and mutual commitments to support each other's Board nominees radically altered the ownership structure of ARV, locked up the Board under the control of Prometheus and the ARV Defendants, and wrested control of the company away from ARV's public shareholders. On August 22, 1997, ARV filed preliminary proxy materials with the Securities and Exchange Commission (the "SEC") stating that ARV was intending to hold a vote of its shareholders at an October 14, 1997 meeting to approve the First Prometheus Transaction. Subsequently, the annual meeting was rescheduled for November 18, 1997.

5. Also on July 14, 1997, the ARV Defendants took another step to entrench themselves in office - they hurriedly implemented a poison pill. The poison pill effectively prevents Emeritus or any other party from attempting to acquire ARV and denies ARV's shareholders the opportunity to receive a premium for their shares in any public tender offer. The ARV Defendants expressly excluded Prometheus from the effect of the poison pill, however, thereby permitting Prometheus to acquire majority control of ARV. Without paying any control premium to ARV's public shareholders.

6. On October 12, 1997, after stating its view that the First Prometheus Transaction constituted a breach of the ARV Defendants' fiduciary duties, Emeritus made a second proposal to the ARV Board to purchase all of the publicly held shares of ARV in cash for $16.50 per share - 16% higher than the price at which Prometheus had purchased its ARV stock. Despite this significant premium, the ARV Defendants again rejected Emeritus' proposal without any serious consideration or negotiations with Emeritus. While Emeritus' proposal offered substantial value to all of ARV's

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shareholders, the First Prometheus Transaction gave unfair and special treatment

to one hand-picked shareholder which in return pledged to support the ARV Defendants in their quest to remain in office.

7. On October 13, 1997, Gary Davidson, the Chairman and Chief Executive Officer of ARV, as well as one of its principal founders, resigned from the company. Upon information and belief, Mr. Davidson resigned because he disapproved of the extent to which Prometheus was exerting control over ARV and because he believed that the ARV Defendants had failed to act in the shareholders' best interest by summarily rejecting Emeritus' October 12, 1997 proposal.

8. With Mr. Davidson having resigned in protest, Emeritus having made proposals which were far superior to the First Prometheus Transaction, and shareholder approval of the First Prometheus Transaction in doubt, the ARV Defendants realized that they had to change strategies to achieve their goals. The centerpiece of the new strategy was to enter into a second transaction with Prometheus (the "Second Prometheus Transaction" or, together with the First Prometheus Transaction, the "Prometheus Transactions"). The ARV Defendants also canceled the November 18, 1997 shareholder meeting and reneged on their commitment to hold a shareholder vote to approve the Prometheus Transactions.

9. On October 29, 1997, ARV announced the Second Prometheus Transaction which superseded parts of the First Prometheus Transaction. The Second Prometheus Transaction would grant Prometheus three designated directors on an expanded, nine-member ARV Board. In addition, Prometheus would keep the shares it had already acquired in the First Prometheus Transaction, representing over 16% of ARV, and would be free to acquire up to 49.9% of all outstanding shares without being subject to ARV's poison pill. In return, Prometheus would agree to purchase $60 million in convertible debentures (the "Notes") and, as before, to vote its stock in favor of keeping ARV's existing Board in office for at least another three years. The Notes would be redeemable at ARV's option in exchange for common shares of ARV, but the initial redemption price would be exorbitant: Prometheus would be entitled to receive approximately 4.3 million shares at an out-of-pocket cost of approximately $14 per share, a substantial discount to the market price. Like the First Prometheus Transaction, the Second Prometheus Transaction locks up the Board under the joint control of Prometheus and ARV's existing management while selling out the company's public

shareholders. Shortly after the announcement of the Second Prometheus Transaction, defendants Freeman, Jacobs and Gunty were appointed to ARV's Board.

10. On November 21, 1997, ARV filed new preliminary proxy materials (the "New Proxy Statement") with the SEC. The New Proxy Statement no longer seeks shareholder approval of the Prometheus Transactions. Rather, the New Proxy Statement states that ARV intends to solicit proxies for the purpose of

approving only three proposals at its annual meeting. Those proposals seek (i) reincorporation of ARV as a Delaware corporation; (ii) amendment of ARV's articles of incorporation to increase the maximum number of authorized directors of ARV from nine to ten; and (iii) re-election of the Individual Defendants as directors of ARV. The New Proxy Statement also stated that Defendants Freemen, Jacobs and Gunty had been appointed to ARV's Board on October 30, 1997. The New Proxy Statement announced January 8, 1998 as the rescheduled date of the annual meeting.

11. On November 24, 1997, Emeritus filed preliminary proxy materials with the SEC stating that Emeritus intends to solicit proxies in opposition to the reelection of the Individual Defendants as ARV Board members at ARV's annual meeting, then scheduled for January 8, 1998. Emeritus' proxy materials also state that Emeritus is proposing its own slate of nominees for election to ARV's board at the annual meeting.

12. On December 8, 1997, ARV announced that it had redeemed the $60 million in Notes for approximately 4.3 million ARV common shares (the "Redemption"). Although ARV announced the price of the shares as $17.25 per share, because Prometheus received a more than 23% "premium" over and above its $60 million investment, the out-of-pocket cost to Prometheus was only $14 per share, substantially less than the market price.

13. In conjunction with the Redemption, ARV announced that it had rescheduled the annual meeting date for a third time, to January 28, 1998. In addition, ARV moved the record date for the annual meeting to December 18, 1997, allowing Prometheus to vote its 4.3 million newly-issued ARV shares at the annual meeting. In effect, ARV has delivered millions of discounted shares to an investor, hand-picked by the Board, who is contractually obligated to vote those shares in support of the Board's director nominees. As a direct response to Emeritus' proxy contest, the

Redemption is a blatant attempt by the Board to entrench itself by buying votes at the expense of ARV's public shareholders and Emeritus.

14. Also on December 8, 1998, ARV announced the appointment, effective immediately, of defendant Phanstiel as its new Chairman of the Board and Chief Executive Officer.

15. Emeritus' complaint seeks, among other things specified further below, the following declaratory and injunctive relief: an order declaring that Defendants have breached their fiduciary duties by (i) entering into and failing to revoke the Prometheus Transactions; (ii) implementing and retaining the poison pill; and (iii) redeeming the Notes issued to Prometheus; and an injunction voiding, or making voidable by Defendants, the Prometheus

Transactions in whole or part and directing that Defendants redeem the poison pill.

II.

PARTIES AND JURISDICTION

16. Plaintiff Emeritus is a Washington corporation with its principal offices located in Seattle, Washington. Emeritus is a long-term care services company focused on operating residential style assisted living communities. Emeritus is qualified to do business in California and does business in California.

17. Defendant ARV is a California corporation with its principal office located in Costa Mesa, California. ARV is also a provider of assisted living accommodations and services that operates, acquires and develops assisted living facilities.

18. Defendant David P. Collins is a Director and Senior Executive Vice President of ARV and is currently responsible for managing ARV Assisted Living International, Inc., a wholly owned subsidiary of ARV. Mr. Collins has been a Director since 1985, and he beneficially owns 558,939 (4.8%) of ARV's common stock. In 1997, solely in his capacity as Executive Vice President of ARV, he stands to earn $204,791 in salary, $63,329 in bonuses and $10,000 in stock options.

19. Defendant John A. Booty is Vice Chairman of the Board of ARV, and prior to December 5, 1997, was its interim President and Chief Executive Officer. Mr. Booty was a founder of ARV's predecessor company in 1980 and served as interim President and Chief Executive Officer beginning October 1997. In addition, he has been a Director of ARV since its inception in 1985. He

also served as President of ARV from 1985 through September 1996 and beneficially owns 699,246 (6%) of ARV's common stock. In 1997, solely in his capacity as interim President and Chief Executive Officer, he stands to earn $136,207 in salary, $50,582 in bonuses and $6,426 in other compensation.

20. Defendants R. Bruce Andrews, James M. Peters and Maurice J. DeWald are currently Directors of ARV and have served as Directors since 1995. They own, respectively, 2,500, 2,500, and 3,500 shares of ARV's common stock. In 1997, as Directors, they will earn $12,000 per year plus $500 for each meeting of the Board or committee of the Board that they attend. They also each have the option to purchase 10,000 shares of ARV common stock.

21. Defendant John J. Rydzewski is a Director and, prior to December 5, 1997, was Chairman of the Board of ARV. In 1997, as a Director of ARV, he would

have earned $12,000 plus $500 for each meeting of the Board or committee of the Board that he attends. However upon his appointment as Chairman of the Board in October 1997, it was agreed that Mr. Rydzewski would receive $75,000 per year for his services. Mr. Rydzewski also owns 7,500 shares of ARV common stock and has an option to purchase 10,000 additional shares of ARV common stock.

22. Defendants Robert P. Freeman, Kenneth M. Jacobs and Murry N. Gunty are Directors of ARV, having been appointed to the Board on October 30, 1997. In addition to their positions as ARV Directors, Mr. Freeman is the President and Managing Director of Lazard, Mr. Jacobs is a Managing Director in the Banking Group of Lazard Freres & Co. LLC, an affiliate of Lazard, and Mr. Gunty is a Vice President of Lazard. Mr. Freeman signed the agreements effectuating the Prometheus Transactions on behalf of the Prometheus.

23. Defendant Howard G. Phanstiel is Chairman of the Board of Directors and Chief Executive Officer of ARV, having been appointed to these position on December 5, 1997. His compensation package has not yet been announced.

24. This Court has jurisdiction over each of the Defendants pursuant to California Code of Civil Procedure Section 410.10. ARV is a California corporation, and the Individual Defendants are currently serving as directors of a California corporation. In addition, on information and belief, the Individual Defendants have participated in Board meetings in California, either in person or

telephonically via teleconferences originating in California. The wrongful acts and transactions alleged herein have had and will have significant effects within California.

III.

VENUE

25. Venue is proper in Orange County because ARV's headquarters and principal offices are located here.

IV.

DERIVATIVE ALLEGATIONS

26. Emeritus asserts the claims herein individually and directly. However, to the extent that any of these claims should be considered to be derivative claims, Emeritus did not make demands on ARV's Board to institute an action asserting the claims because, under the circumstances, demand was not required, and not necessary and would have been futile in that: (a) the ARV Defendants participated in and approved of the wrongful acts alleged herein; (b)

those acts occurred in response to and in the context of a contest for control of ARV, which could have resulted in the removal of the ARV Defendants from office; (c) the ARV Defendants have already repudiated Emeritus' proposals and offers to negotiate; (d) the ARV Defendants have recommended the First Prometheus Transaction in ARV's preliminary proxy materials; and (e) defendants Freeman, Jacobs and Gunty aided and abetted the ARV Defendants' breach of fiduciary duty and, together with defendant Phanstiel, have done nothing since their appointment as Directors to revoke the Prometheus Transactions or the poison pill or to mollify their entrenching effects. Thus, the Board has at no time been either independent or disinterested with respect to the decisions it made.

V.

FACTUAL BACKGROUND

A. ARV IGNORES EMERITUS' PROPOSAL AND RUSHES TO CLOSE THE FIRST PROMETHEUS TRANSACTION

27. In June 1997, Daniel R. Baty, Chairman and CEO of Emeritus, telephoned Mr. Davidson of ARV. Mr. Baty told Mr. Davidson that Emeritus was interested in exploring a business

combination with ARV. On July 3, 1997, Mr. Baty met with Mr. Davidson at ARV's headquarters and reiterated Emeritus' possible interest in such a combination.

28. Instead of pursuing discussions with Emeritus, on June 27, 1997, ARV entered into an exclusivity agreement with Prometheus pursuant to which ARV agreed not to pursue a transaction with another party prior to August 8, 1997 while negotiations with Prometheus took place. Negotiations between ARV and Prometheus continued into early July.

29. On July 10, 1997, Mr. Baty of Emeritus and a representative of Starwood Capital Group, LLC ("Starwood") delivered by facsimile a letter to Mr. Davidson of ARV, a copy of which is attached as Exhibit A. In the letter, Mr. Baty and the representative of Starwood set forth a proposal for the acquisition of ARV by Emeritus and Starwood. Under the proposal, ARV's shareholders would receive either Emeritus stock or a combination of Emeritus stock and cash worth a minimum of $14 for their ARV shares, which represented a premium of more than 35% over the then-current market price of ARV stock. Starwood would provide ongoing financing for the combined company.

30. In the final paragraph of the July 10 letter, Mr. Baty and the representative of Starwood suggested that a meeting occur as soon as possible between Emeritus, ARV and Starwood to discuss the proposals in greater detail

and explore possible structures and alternatives. The letter made clear that Emeritus, Starwood and their advisors were ready to meet with ARV at its offices in Costa Mesa at ARV's earliest convenience.

31. The following day, on Friday, July 11, 1997, Mr. Baty received a letter back from ARV, a copy of which is attached as Exhibit B. ARV's letter stated that Emeritus' letter had been received and that the ARV Board was "attempting to schedule a meeting next week to consider your proposal."

32. In fact, as the ARV Defendants well knew, ARV's exclusivity agreement with Prometheus precluded its pursuit of another transaction before August 8, 1997.

33. Rather than waiting for the next week, ARV's Board met on Sunday, July 13, 1997. At this meeting, the ARV Defendants summarily rejected Emeritus' proposal without any further inquiry or discussions with Emeritus or Starwood. In addition, the ARV Defendants decided to proceed with two major actions which would effectively prevent Emeritus, or any other party, from acquiring

control of ARV. These two major actions were, first, rushing to complete and enter into the First Prometheus Transaction, and second, implementing the poison pill. The effect of these actions was to entrench the ARV Defendants in office for their own personal benefit and to deny Emeritus the opportunity to present its offer to ARV's public shareholders.

B. ARV ENTERS INTO THE FIRST PROMETHEUS TRANSACTION

34. On July 14, 1997, four days after receiving Emeritus' proposal, ARV, certain of the ARV Defendants, Prometheus and Lazard entered into a series of agreements under which Prometheus purchased up to a 49.9% holding in ARV's stock. At the heart of the transactions were mutual promises by the ARV Defendants and Prometheus to expand the size of the Board and to vote all of their respective shares in support of each other's nominees for positions on the Board. In addition, Prometheus agreed to abstain for the next three years from participating in any acquisition of ARV or other acts which could potentially unseat the ARV Defendants.

35. The terms of the First Prometheus Transaction rendered control of the affairs of ARV a private arrangement between ARV's senior management and Prometheus and thereby effectively disenfranchised ARV's public shareholders. Before the transaction, ARV's public shareholders had the ability by acting in concert to control the company; after the transaction, they did not. This change of control was engineered by Defendants while denying Emeritus the opportunity to make an offer to acquire ARV and thereby benefit all of ARV's shareholders.

36. On information and belief, defendants Freeman, Jacobs and Gunty each

aided and abetted the ARV Defendants' breach of their fiduciary duty to shareholders by encouraging and otherwise assisting the ARV Defendants in the adoption of the First Prometheus Transaction.

37. The terms of the three principal agreements of the First Prometheus Transaction - the Stock Purchase Agreement (the "SPA"), the Stockholders Agreement (the "SA"), and the Stockholders Voting Agreement (the "SVA") - are set forth below in greater detail.

38. SPA: Sale of ARV Stock to Prometheus. The SPA between Lazard, Prometheus and ARV, a copy of which is attached as Exhibit C, provided for the issuance to Prometheus of up to a total of 9,653,325 ARV shares. See SPA Section 2.1. Because the First Prometheus Transaction was superseded by the Second Prometheus Transaction, a total of 1,921,012 shares (or approximately

16.6% of all outstanding shares) have been issued to Prometheus. However, the SPA provided that ARV would issue a second block of stock consisting of 3,078,988 shares to Prometheus on the date that shareholder approval of the First Prometheus Transaction, as described more fully below, took place. See SPA Section 2.4(a), (b). Thereafter, Prometheus would acquire additional ARV stock up to an aggregate holding of 49.9% of all outstanding shares during a three-year "standstill" period. After the standstill period ended, Prometheus would be free to acquire additional shares of ARV and thus hold a majority interest in the company.

39. SPA: Prometheus' Power to Veto Actions by ARV. Until four of Prometheus' own directors had assumed positions on ARV's Board, the SPA permitted Prometheus to veto any significant action by ARV's Board other than in the ordinary course of business, including (i) the acquisition or sale of any business or assets having a value in excess of 1% of ARV's assets; (ii) the incurrence of indebtedness having a value in excess of 1% of ARV's assets; (iii) the approval of ARV's annual operating budget; (iv) any material change in ARV's management; (v) any change in the number of shares of ARV common stock authorized for issuance; and (vi) any change in ARV's dividend policy. See SPA Section 5.5.

40. SPA: "No Shop" Provision. The SPA forbade ARV from initiating, soliciting, or encouraging any transaction which might compete with the transaction with Prometheus - a so-called "Competing Transaction." See SPA Section 5.6. A Competing Transaction was defined as the acquisition of more than 15% of ARV's stock, or any business combination, restructuring or liquidation involving ARV. See SPA Section 1.33.

41. SPA: Expanded Board and Executive Committee With Prometheus Veto. The SPA provided that the Board would be expanded from seven to eleven directors, with the four new positions to be filled by Prometheus. See SPA

Section 5.10. In addition, ARV's bylaws would be amended to require a super-majority of eight directors for the approval of "any action other than in the ordinary course." Id. With Prometheus controlling four Board seats, it would have veto power over a wide range of Board activity. The SPA also provided that votes by the five-person Executive Committee of the Board, two members of which would be nominated by Prometheus, be subject to a super-majority

requirement for approval. See SPA Section 5.10. Thus, Prometheus would have had veto power over actions by the Executive Committee as well.

42. SPA: Shareholder Ratification Requirement. The SPA required ARV to seek to have the First Prometheus Transaction and the specific agreements effectuating it approved by the affirmative vote of a majority of the holders of ARV's common stock. See SPA Sections 3.19, 7.2(a). For purposes of this ratification, the shares owned by Prometheus (currently 16.6% of all outstanding shares) would be counted in reaching a quorum but would not be counted toward the majority necessary for ratification. As discussed more fully below, the shares held by Gary Davidson and the three Individual Defendants who are directors or senior officers of ARV, which comprise over 20% of ARV's outstanding shares, were required by the SVA to be voted in support of ratification of the First Prometheus Transaction.

43. SPA: $13 Million "Break-up" Fee. The SPA required ARV to pay significant "breakup" fees to Prometheus if the First Prometheus Transaction was not consummated. Ordinarily, a "break-up" fee is justifiable on the grounds that it deters a company from backing out of a transaction which enhances shareholder value. But here the First Prometheus Transaction did not enhance the value of ARV's outstanding shares, and thus the fees provided for in the SPA were unjustified and punitive to ARV and its shareholders. In addition, the fees were unduly large and grossly disproportionate to the size of the First Prometheus Transaction. Such fees rarely exceed 3% of the value of the transaction, but in one scenario set forth in the SPA were equal to approximately 10% of the value of the First Prometheus Transaction. See SPA Section 9.3(b). The break-up fee was in fact intended to coerce ARV shareholders into approving the First Prometheus Transaction. The break-up fees and "adjustments" to the purchase price contemplated by the SPA would have reduced the price per share received by ARV in the transaction to as little as $4.15 below market at the time the First Prometheus Transaction was announced.

44. SA: Voting of Prometheus' Shares. The quid pro quo for the astonishing benefits granted by ARV's Board to Prometheus under the SPA was largely provided for in the SA among Lazard, Prometheus and ARV, a copy of which is attached as Exhibit D. The SA obligated Prometheus to vote all of its shares of ARV "in favor of the election of Directors nominated by the

Nominating Committee or the Board". See SA Section 3.1. Thus, in addition to their own sizable holding of shares, ARV's Board would have been supported in office by Prometheus' holding as well.

45. SA: Resistance to Changes of Control or Policy. The standstill restrictions of Sections 4.2 and 4.3 of the SA prohibited Prometheus during a three-year period from acting either alone or in concert with another person or group in any way which could threaten the existing composition of the ARV Board or management.

46. SA: No Support of Disinterested Stockholders. In particular, Section 4.2 prohibited Prometheus from directly or indirectly (i) soliciting, proposing or otherwise encouraging a genuine election contest for the Board of Directors; (ii) soliciting, encouraging or participating in any stockholder proposals; (iii) calling a special meeting for a stockholder vote; (iv) requesting a list of stockholders; or (v) seeking amendment, waiver or invalidation of the First Prometheus Transaction.

47. SA: No Tendering or Other Transfer of Shares. Similarly, Section 4.3 of the SA restricted Prometheus from transferring or tendering its shares during the standstill period, with particular reference to transfers to companies operating "assisted living facilities" such as Emeritus.

48. SA: Disenfranchisement of Disinterested Shareholders. In essence, Sections 4.2 and 4.3 dictated that Prometheus' 49.9% interest be immobilized and used as "ballast" for continuing Board control during any bids for changes in control or policy. The exception, of course, was the election of directors, when the Prometheus block had to be voted in support of Board nominees. In addition, as indicated in its preliminary proxy materials, the Board sought to reincorporate ARV in Delaware and to remove the possibility of cumulative voting of directors. The combined effect of these changes would have been to make it virtually impossible for Emeritus or any other shareholder to elect its own director nominee, remove incumbent directors or effectively challenge any action by the Board.

49. SVA: Voting by ARV Board Members. The SVA among Prometheus, Lazard and four of the largest individual shareholders of ARV (defendants Booty and Collins, Gary Davidson, and Graham Espley-Jones, the chief financial officer of ARV), a copy of which is attached as Exhibit E, required each of the individual shareholders, subject to certain conditions, to vote all of the shares under his control (i) in support of the First Prometheus Transaction; and (ii) in support of the election

of ARV directors who are either nominated by Prometheus or the Nominating Committee of the Board. See SVA Section 1. In effect, the SVA provided that Prometheus, Lazard and certain directors and senior officers of ARV would pool their substantial voting power in an attempt to force approval of the First Prometheus Transaction and, if they were successful, to perpetuate in office their own designated nominees to ARV's Board.

C. THE IMPLEMENTATION OF ARV'S POISON PILL

50. On July 14, 1997, in addition to entering into the First Prometheus Transaction, Defendants implemented a Shareholders Rights Plan, a copy of which is attached as Exhibit F, to seek to prevent an acquisition by Emeritus or another bidder. In implementing the Shareholders Rights Plan or "poison pill," ARV declared a dividend distribution of one Preferred Share Purchase Right (a "Right") on each outstanding share of ARV common stock. The Rights will be exercisable if, among other things, a person or group (the "Acquiring Person") acquires 10% or more of ARV's common stock. When exercisable, each Right will entitle its holder to purchase additional newly issued shares of ARV common stock at half-price. The effect of the pill, if triggered, is to greatly increase the number of outstanding shares of ARV stock and make an acquisition prohibitively expensive to the Acquiring Person. The Rights distributed on shares owned by the Acquiring Person may not be exercised, thus putting the Acquiring Person at an additional disadvantage in its efforts to acquire ARV.

51. Significantly, Defendants specifically exempted the shares owned by Prometheus from triggering the poison pill. Thus, Prometheus - which already owns over 16% of ARV's stock may continue to acquire ARV shares either through future stock purchase agreements with ARV or through open market purchases without triggering the pill. The exemption of Prometheus from the pill gives Prometheus the opportunity to acquire a majority interest in ARV without paying any control premium and, in the meantime, to exercise significant leverage and control over ARV.

52. The poison pill, implemented only four days after ARV received Emeritus' proposal, was adopted by the ARV Defendants for the improper purposes of entrenching themselves in office, deterring any challenge to the First Prometheus Transaction, and chilling or blocking Emeritus' proposal and any other proposals by another bidder.

D. ARV'S JULY 15 PRESS RELEASE

53. On July 15, 1997, ARV issued a press release stating that on the previous day its Board had approved the agreements with Prometheus and Lazard and had implemented the poison pill. Emeritus learned of the transactions

between ARV and Prometheus for the first time in this press release. The press release stated that the first phase of the stock sale to Prometheus would close by the end of August 1997.

E. EMERITUS' JULY 21, 1997 LETTER TO ARV CRITICIZING THE FIRST PROMETHEUS TRANSACTION AND OFFERING TO NEGOTIATE A TRANSACTION TO MAXIMIZE SHAREHOLDER VALUE

54. On July 21, 1997, Emeritus delivered a letter to ARV expressing surprise and disappointment with the announcement of the First Prometheus Transaction, a copy of which is attached as Exhibit G. The letter raised a number of concerns with the recent actions of ARV's Board, including (i) the negative effects that the First Prometheus Transaction would have on the long-term value of ARV's stock, especially as compared to the positive effects that Emeritus' proposal would offer; (ii) the lack of serious consideration the ARV Board gave to Emeritus' proposal; (iii) the inappropriately large size of the break-up fee in the SPA with Prometheus; (iv) the effects of the poison pill in entrenching current management and deterring challenges to the First Prometheus Transaction; and (v) the fact that the First Prometheus Transaction had resulted in a change of control of ARV without shareholder value being maximized. In conclusion, Emeritus told ARV that it was prepared to discuss the terms of a potential transaction between ARV and Emeritus that would maximize shareholder value.

F. AFTER RECEIVING EMERITUS' JULY 21 LETTER, ARV AND PROMETHEUS HURRIEDLY CLOSE THE FIRST PROMETHEUS TRANSACTION

55. Although ARV's July 15 press release had stated that the closing of the first phase of the Prometheus stock purchase would occur by the end of August, four days after ARV received Emeritus' July 21 letter, the first phase abruptly closed. Thus, on July 25, 1997, ARV issued Prometheus 1,921,012 shares of ARV common stock representing over 16% of ARV's outstanding stock.

56. Also on July 25, ARV responded to Emeritus' July 21 letter. In this letter, a copy of which is attached as Exhibit H, ARV asserted that ARV's Board had found the terms of Emeritus' proposal as set forth in Emeritus' July 1O letter to be "significantly less attractive and less definitive" than the terms of the First Prometheus Transaction. ARV also claimed that the size of the break-up fee was normal and that the poison pill was not implemented in response to Emeritus' proposal. ARV then threatened to take legal action against both Emeritus and Starwood if either entity attempted to "interfere" with consummation of the First Prometheus Transaction.

G. ARV'S PLAN TO RATIFY THE FIRST PROMETHEUS TRANSACTION BY SHAREHOLDER VOTE

57. On August 22, 1997, ARV filed with the SEC a preliminary proxy statement in connection with its upcoming meeting of shareholders, a copy of which is attached as Exhibit I. In its proxy statement, ARV stated that it intended to solicit proxies for the purpose of approving four proposals at the meeting, which was at that time scheduled for October 14, 1997. On information and belief, the annual meeting was subsequently rescheduled for November 18, 1997. These proposals sought (i) shareholder approval of the agreements implementing the First Prometheus Transaction; (ii) shareholder approval of an amendment to ARV's Articles of Incorporation, as required by the SA, increasing the maximum number of directors of ARV from nine to eleven; (iii) reincorporation of ARV as a Delaware corporation as opposed to a California corporation; and (iv) re-election of the ARV Defendants as directors of ARV.

58. The preliminary proxy statement identified one of the potential effects of shareholder approval of the First Prometheus Transaction as follows: "Such approval may serve to extinguish potential claims, if any, regarding any conduct of members of the Board in connection with the [First Prometheus] Transaction, including potential claims alleging violations of the Board's duties to shareholders. Under California Law, fully informed shareholder approval of a transaction may, in certain circumstances, serve to extinguish certain related fiduciary duty claims against directors." Ex. I at 9. The preliminary proxy materials thus candidly admitted the potential for breach of fiduciary claims against ARV's directors based on the First Prometheus Transaction.

59. The SVA between Prometheus, Lazard and certain insider shareholders of ARV, however, provided that those individuals (including defendants Booty and Collins) were required to

vote their shares in favor of approving the First Prometheus Transaction (see SVA Section 1) - or, in other words, that they were contractually required to vote in favor of exculpating themselves from breach of fiduciary claims brought by ARV's shareholders. While this arrangement was contrary to California law, the preliminary proxy materials failed to disclose this fact. The preliminary proxy materials also failed to disclose that the First Prometheus Transaction had been entered into by Defendants for the improper purpose of entrenching the ARV Defendants in office, that the First Prometheus Transaction had effectuated a change of control at ARV without shareholder value being maximized, and that the ARV Defendants had failed to properly consider or respond to Emeritus' July 10, 1997 proposal.

H. ARV IGNORES EMERITUS' OCTOBER 12,1997 PROPOSAL

60. On October 12, 1997, Emeritus delivered a letter to ARV, a copy of which is attached hereto as Exhibit J. The letter reiterated Emeritus' concern that the First Prometheus Transaction would transfer control of ARV to

Prometheus without appropriate value being paid to ARV's stockholders.

61. Emeritus' October 12, 1997 letter proposed the acquisition by Emeritus of all the outstanding stock of ARV for $16.50 per share in cash, a 45% premium over ARV's stock price before the First Prometheus Transaction was announced, and an 18% premium over the price per share paid by Prometheus in purchasing its 16% block. The letter further indicated that Emeritus would make its bid public the following day, and that Emeritus was available to meet with ARV and its advisers immediately to discuss the proposal. As promised, Emeritus announced its bid via press release on October 13.

62. Without any attempt to communicate or negotiate with Emeritus, ARV issued a press release on October 14, 1997, a copy of which is attached hereto as Exhibit K. Notwithstanding the signed agreement to sell 49.9% of ARV to Prometheus, the press release contended that ARV was not for sale. The release described the Emeritus offer as unattractive because of what ARV characterized as "significant conditions," including the need for due diligence and the finalization of financing agreements. Remarkably, the press release also cited the then-current trading price of ARV stock, which had been bid higher in response to Emeritus' proposal, as a reason to reject the offer.

63. The ARV Defendants failed to exercise due care and to take diligent action to maximize shareholder value by rejecting, after only two days, Emeritus' proposal to acquire the outstanding shares of ARV for $16.50. Emeritus' proposal offered a significant premium to all of ARV's shareholders as opposed to the First Prometheus Transaction which, by giving special treatment to one hand-picked shareholder pledged to support the ARV Defendants in their quest to remain in office, was in fact contrary to the interests of ARV's other shareholders.

I. GARY DAVIDSON RESIGNS FROM ARV

64. On October 13, 1997, the day after ARV's Board received Emeritus' $16.50 per share offer, Gary Davidson resigned from his positions as Chairman, Chief Executive Officer and Director of ARV.

65. Upon information and belief, Mr. Davidson resigned because he disapproved of the extent to which Prometheus was exerting control over ARV and because he believed that the ARV Defendants had failed to act in the shareholders' best interest by, among other things, summarily rejecting Emeritus' October 12, 1997 proposal.

J. ARV RETREATS FROM THE FIRST PROMETHEUS TRANSACTION AND ENTERS INTO THE SECOND PROMETHEUS TRANSACTION WHICH DOES NOT REQUIRE SHAREHOLDER APPROVAL

66. Less than three weeks after receiving Emeritus' $16.50 per share proposal, the ARV Defendants, Prometheus and Lazard made a strategic decision to retreat from the First Prometheus Transaction and enter into a new set of agreements - the Second Prometheus Transaction - which in part supersede the First Prometheus Transaction. Upon information and belief, the ARV Defendants entered into the Second Prometheus Transaction (i) because they feared that the First Prometheus Transaction would not be approved by ARV's shareholders, and (ii) in order to entrench themselves in office by preventing Emeritus from proceeding with its proposals.

67. As with the First Prometheus Transaction, at the heart of the Second Prometheus Transaction were mutual promises by the ARV Defendants and Prometheus to vote all of their respective shares in support of each other's nominees for positions on the Board. As before, Prometheus agreed to abstain for the next three years from participating in any acquisition of ARV or

other acts which could potentially unseat the ARV Defendants. Prometheus would also retain its 16% interest in ARV acquired as part of the First Prometheus Transaction.

68. The Second Prometheus Transaction differed from the first transaction in several important respects. Most significantly, Defendants crafted the Second Prometheus Transaction so that it did not have to be approved by ARV's shareholders. Rather than issuing new shares directly to Prometheus, the Second Prometheus Transaction called for the issuance of convertible notes (the "Notes"), which could be converted into common shares under various circumstances. Upon conversion of the Notes, Prometheus, in conjunction with its 16% holding, would hold up to 35% of the outstanding shares of ARV. As with the First Prometheus Transaction, Prometheus was free to acquire a total of up to 49.9% of the outstanding shares of ARV during a three-year standstill period, without triggering ARV's poison pill.

69. According to ARV's Form 8-K dated November 14, 1997 (the "8-K"), a copy of which is attached as Exhibit L, Prometheus has not yet paid for the $60,000,000 in convertible Notes issued to it by ARV, despite the fact that interest has begun accruing on the Notes. See 8-K Item 5 at 4.

70. On information and belief, defendants Freeman, Jacobs and Gunty each aided and abetted the ARV Defendants' breach of their fiduciary duty to shareholders by encouraging and otherwise assisting the ARV Defendants in the adoption of the Second Prometheus Transaction.

71. The terms of the five principal agreements constituting the Second Prometheus Transaction - the Amended and Restated Stock and Note Purchase Agreement ("SPA2"), the related indenture (the "Indenture") and note in favor of

Prometheus (the "Prometheus Note"), the Amended and Restated Stockholders Agreement ("SA2"), and the new Stockholders' Voting Agreement ("SVA2") are set forth below in greater detail.

72. SPA2: Sale of Convertible Notes to Prometheus. The SPA2 between Lazard, Prometheus and ARV, a copy of which is attached as Exhibit M, provides for the issuance to Prometheus of an aggregate of $60,000,000 principal amount of 6.75% Convertible Subordinated Notes due 2007. See SPA2 Section 2.1. The SPA2 amends and restates the SPA.

73. Indenture and Prometheus Note: Conversion to Common Shares. The Indenture and Prometheus Note, copies of which are attached as Exhibits N and 0, allow ARV to redeem the Notes

at any time. However, during the first three years after the Second Prometheus Transaction, the Notes may only be redeemed for ARV common shares. See Note [paragraph symbol] 5; Indenture Section 3.7. Significantly, the redemption price during the first three years of the transaction is exorbitantly high: more than 123% of Prometheus' $60 million purchase price for the Notes. See Note [paragraph symbol] 5. Thus, for its $60 million investment, Prometheus would receive approximately 4,285,000 shares at an out-of-pocket cost of $14 per share. See Note [paragraph symbol] 5. In essence, the redemption option allows ARV's Board, in the event the Board perceives a threat to its control of ARV, to issue massive quantities of discounted stock to Prometheus, shares which are contractually bound to be voted in favor of the Board's director nominees. Paragraph 5 of the Prometheus Note is thus calculated to dilute the voting power of disinterested shareholders in order to entrench the current Board. Accordingly, the adoption of the 123% redemption provision by the ARV Defendants constituted a breach of their fiduciary duties to Emeritus and other ARV shareholders.

74. In addition, Prometheus has the right, exercisable at any time after 90 days following the date of issuance of the Notes, to convert the Notes into shares of ARV common stock. See Note [paragraph symbol] 10; Indenture Section 5.1. While the Note designates the "initial Conversion Price" at $17.25 per share, see Note [paragraph symbol] 10, the Indenture leaves ARV the option to reduce the conversion price "to the extent permitted by law" for any 20-day period, Indenture Section 5.10. Thus, ARV's Board is free to attempt a sweetheart deal with Prometheus to convert the Notes into common stock at a price well below Emeritus' offer or the then-current market price.

75. SA2: Expanded Board with Prometheus Designees. The SA2, a copy of which is attached as Exhibit P, amends and restates the SA. The SA2 provides that the Board be expanded to 9 directors, of whom Prometheus has the right to designate 3. SA2 Section 2.1(a). ARV is restrained from expanding the Board beyond nine members. SA2 Section 2.1(d).

76. SA2: Prometheus Veto of Choice of ARV President/CEO and Director. The SA2 requires that ARV receive the prior written consent of Prometheus approving ARV's selection of a President and CEO to replace Gary Davidson. SA2 Section 2.5. Once Prometheus has approved the new President/CEO, ARV must use its best efforts to elect him or her to the Board, replacing one of the directors not designated by Prometheus. SA2 Section 5. Thus, in addition to having three designees on the

Board, Prometheus will have veto power over the selection of an additional director, effectively leaving Prometheus only one member short of a majority of directors who, at the very least, are sympathetic to Prometheus' interests.

77. SA2: Voting of Prometheus' Shares. As under the SA, during the Second Prometheus Transaction's 3-year standstill period, Prometheus is required to vote all of its shares of ARV "in favor of the election of all Directors nominated by the nominating committee, if any, or the Board. . ." SA2 Section 3.1. Thus, as under the First Prometheus Transaction, the Board's own sizable holding will be supported by Prometheus', the company's largest shareholder. Since Prometheus' common stock holdings are likely to give it de facto voting control of ARV, the SA2 virtually ensures that the Board will be able to perpetuate itself and its nominees in office.

78. SA2: Resistance to Changes of Control or Policy. As under the SA, the standstill restrictions of Sections 4.2 and 4.3 of the SA2 prohibits Prometheus during a three-year period from acting either alone or in concert with another person or group in any way which could threaten the existing composition of the ARV Board or management.

79. SA2: No Support of Disinterested Stockholders. As under the SA, Section 4.2 of the SA2 prohibits Prometheus from directly or indirectly (i) soliciting, proposing or otherwise encouraging a genuine election contest for director positions on ARV's Board; (ii) soliciting, encouraging or participating in any stockholder proposals; (iii) calling a special meeting for a stockholder vote; (iv) requesting a list of stockholders; or (v) seeking amendment, waiver or invalidation of the Second Prometheus Transaction.

80. SA2: No Tendering or Other Transfer of Shares. As under the SA, Section 4.3 of the SA2 restricts Prometheus from transferring or tendering its shares during the standstill period, with particular reference to transfers to companies operating "assisted living facilities" such as Emeritus.

81. SA2: Disenfranchisement of Disinterested Shareholders. As under the SA, Sections 4.2 and 4.3 of the SA2 essentially dictate that Prometheus' up to 49.9% interest be immobilized and used as "ballast" for continuing Board control during any bids for changes in control or policy. The exception, of course, is the election of directors, when the Prometheus block must be voted in support of

Board nominees. The combined effect of these changes will be to make it impossible for Emeritus

or any other shareholder to elect its own director nominee, remove incumbent directors or effectively challenge any action by the Board.

82. SVA2: Voting By ARV Board Members. The SVA2 among Prometheus, Lazard and three of the largest individual shareholders of ARV (Graham Espley-Jones and defendants Booty and Collins), a copy of which is attached as Exhibit Q, requires each of the three individual shareholders to vote all of the shares under his control in support of the election of ARV directors who are either nominated by Prometheus or the Nominating Committee of the Board. See SVA2 Section 1. Like the SVA, the SVA2 provides in effect that Prometheus, Lazard and certain directors and senior officers of ARV pool their substantial voting power to perpetuate in office their own designated nominees to ARV's Board. Unlike the SVA, Gary Davidson is not a party to the SVA2.

K. ARV ANNOUNCES STOCK BUY-BACK PROGRAM

83. On November 14, 1997, ARV announced it had allocated $25 million for the institution of a stock buy-back program to repurchase ARV common shares on the open market. The implementation of the stock buy-back program has the effect of further entrenching the Individual Defendants by reducing the number of shares held by disinterested shareholders.

L. ARV FILES NEW PRELIMINARY PROXY MATERIALS

84. On November 21, 1997, ARV filed new preliminary proxy materials (the "New Proxy Statement") with the SEC. The New Proxy Statement, which is attached as Exhibit R, no longer seeks approval of the Prometheus Transactions. Rather, the New Proxy Statement states that ARV intends to solicit proxies for the purpose of approving only three proposals at its annual meeting. Those proposals seek (i) reincorporation of ARV as a Delaware corporation; (ii) amendment of ARV's articles of incorporation to increase the maximum number of authorized directors of ARV from nine to ten; and (iii) re-election of the Individual Defendants as directors of ARV. The New Proxy Statement was the first public announcement by ARV that Defendants Freeman, Jacobs and Gunty were appointed to ARV's Board. The New Proxy Statement announced January 8, 1998 as the rescheduled date of the annual meeting.

85. Since the Individual Defendants chose to exempt the Second Prometheus Transaction from a shareholder vote, the New Proxy Statement makes little effort to describe it or its effects on

ARV. Nevertheless, the New Proxy Statement fails to disclose or misrepresents a number of material facts concerning the Second Prometheus Transaction, including:

86. Entrenchment. ARV fails to disclose that the effect of the Second Prometheus Transaction, like the first, will be to entrench the ARV Defendants and effectively preclude the public shareholders from electing any directors to the Board or, in fact, from having a meaningful voting franchise on any issue.

87. Change of Control. ARV fails to disclose that the Second Prometheus Transaction frees Prometheus to gain control of 49.9% of ARV's common shares, and has effectively produced a change of control of ARV without either (i) any payment to the public shareholders; or (ii) preserving an opportunity for the public shareholders to realize a control premium for their shares.

88. Failure to Consider Competing Proposal. ARV fails to disclose that prior to the signing of the agreements which constitute the Second Prometheus Transaction, Emeritus made a second proposal to ARV for the cash purchase of all of the outstanding shares of ARV for $16.50 per share.

M. EMERITUS ANNOUNCES ITS PROXY CONTEST

89. On November 24, 1997, Emeritus filed preliminary proxy materials with the SEC, attached as Exhibit S, stating that Emeritus intends to solicit proxies against the slate of director nominees that ARV had planned to submit to its shareholders at the previously scheduled January 8, 1998 meeting. In its proxy materials, Emeritus also proposed a slate of nominees to serve as directors of ARV.

N. THE REDEMPTION OF THE NOTES

90. On December 8, 1997, ARV announced that it had redeemed the $60 million in Notes for approximately 4.3 million ARV common shares (the "Redemption"). Although ARV announced the price of the shares as $17.25 per share, because Prometheus received a more than 23% "premium" over and above its $60 million investment, the out-of-pocket cost to Prometheus was only $14 per share, substantially less than the market price.

91. In conjunction with the Redemption, ARV announced that it had rescheduled the annual meeting date for a third time, to January 28, 1998. In addition, ARV moved the record date

for the annual meeting to December 18, 1997, allowing Prometheus to vote its 4.3 million newly-issued ARV shares at the annual meeting. In effect, ARV has

delivered millions of discounted shares to an investor, hand-picked by the Board, who is contractually obligated to vote those shares in support of the Board's director nominees. As a direct response to Emeritus' proxy contest, the Redemption is a blatant attempt by the Board to entrench buying votes for itself at the expense of ARV's public shareholders.

92. Also on December 8, 1998, ARV announced the appointment, effective immediately, of defendant Phanstiel as its new Chairman of the Board and Chief Executive Officer.

VI.

RELIEF SOUGHT

A. DECLARATORY RELIEF

93. The Court may grant the declaratory relief sought herein by Emeritus, because an actual and immediate controversy exists between Emeritus and Defendants. Emeritus contends that Defendants have breached, and are in the process of breaching, their fiduciary duties to Emeritus by, among other things as specified herein, (i) refusing to properly consider or respond to Emeritus' proposals and offers to negotiate with Emeritus; (ii) entering into, consummating, and failing to revoke the Prometheus Transactions; (iii) implementing and retaining the poison pill; (iv) implementing the stock buy-back program; (v) redeeming the Notes issued to Prometheus and moving the record and annual meeting dates; (vi) taking other measures to entrench ARV's Board; and (vii) failing to maximize the value of ARV's shares. Defendants have disputed many of these claims and contend that ARV's Board found the terms of Emeritus' proposal as set forth in Emeritus' July 10 letter to be "significantly less attractive and less definitive" than the terms of the First Prometheus Transaction, and that Emeritus' October 12 proposal was "unattractive" and "conditional." ARV has also taken the position that the poison pill, the stock buy-back program, and the Redemption are in the best interests of ARV's shareholders.

94. The granting of the requested declaratory relief will serve the practical purpose of affording relief from the disruption and uncertainty regarding whether Defendants have acted and are acting in violation of their fiduciary duties to Emeritus as alleged herein. The Court's declaratory

ruling will resolve the continued controversy over the ARV Board's defensive schemes and voting arrangements, thereby avoiding delay and the waste of judicial resources through piecemeal litigation.

B. INJUNCTIVE RELIEF

95. The Court may grant the injunctive relief sought herein by Emeritus, because Defendants have already breached, and are in the process of breaching, their fiduciary duties to Emeritus by, among other things as specified herein, (i) refusing to properly consider or respond to Emeritus' proposals and offers or to negotiate with Emeritus; (ii) entering into, consummating, and failing to revoke the Prometheus Transactions; (iii) implementing and retaining the poison pill; (iv) implementing the stock buy-back program; (v) redeeming the Notes issued to Prometheus and moving the record and annual meeting dates; (vi) taking other measures to entrench ARV's Board; and (vii) failing to maximize the value of ARV's shares.

96. The injunctive relief sought herein is justified because Emeritus has properly stated claims for breach of fiduciary duty and is able to prove a likelihood of success in proving its allegations. The denial of injunctive relief will cause more harm to Emeritus than the granting of such relief will cause to Defendants. Money damages are insufficient to make Emeritus whole because of the unique, unreproducible and currently immeasurable value to Emeritus of a corporate combination with ARV. Emeritus faces irreparable harm if the Court does not act to preserve the status quo at this juncture.

VII.

FIRST CLAIM FOR RELIEF
BREACH OF FIDUCIARY DUTY: USE OF THE PROMETHEUS TRANSACTIONS AS AN IMPROPER DEFENSIVE MEASURE TO ENTRENCH ARV'S EXISTING BOARD
(DECLARATORY AND INJUNCTIVE RELIEF)

97. Emeritus repeats and realleges each and every allegation set forth in Paragraphs 1 through 96 as if fully set forth herein.

98. By means of the Prometheus Transactions, the ARV Defendants, aided and abetted by Defendants Freeman, Jacobs and Gunty, have implemented a scheme to sell a substantial quantity of

ARV common stock and Notes to Prometheus in return for promises that Prometheus will vote those shares in support of the ARV Board's director nominees. In addition, Prometheus will have the exclusive ability to acquire up to 49.9% of ARV's outstanding common shares without triggering the poison pill. These actions, and others detailed above, indicate that the ARV Defendants entered into the Prometheus Transactions for the purpose of entrenching themselves in office and preventing a transaction with Emeritus from occurring.

99. Defendants owe fiduciary duties to Emeritus. As fiduciaries, Defendants owe Emeritus the highest duties of care, loyalty, candor and good

faith. As part of those duties, Defendants are prohibited from taking any defensive actions which have the effect of entrenching existing management at the expense of Emeritus. Here, the effect of the Prometheus Transactions is to entrench existing management to the direct detriment of Emeritus.

100. On information and belief, Defendants Freeman, Jacobs, Gunty and Phanstiel have done nothing since their appointment to the Board to rectify these continuing breaches of fiduciary duty.

101. Given Emeritus' announcement that it will commence a proxy contest against the Board's director nominees, and Emeritus' offers and proposals to acquire the outstanding shares of ARV, Emeritus has been, and is being, harmed by Defendants' breaches of their fiduciary duties as alleged in this claim.

102. Emeritus seeks a declaration that (i) Defendants have breached their fiduciary duties by entrenching ARV's existing board in office; (ii) the ARV Defendants have breached their fiduciary duties by entering into and failing to revoke the Prometheus Transactions; (iii) the Prometheus Transactions are null and void or voidable by Defendants; (iv) the issuance of the Notes was in breach of the ARV Defendants' fiduciary duties; (v) the Redemption of the Notes into common shares of ARV was, and the voting or counting of votes of such shares would be, in breach of Defendants' fiduciary duties; (vi) the moving of the record and annual meeting dates was in breach of Defendants' fiduciary duties and illegal under California law; (vii) the issuance to Prometheus of ARV shares under the First Prometheus Transaction was in breach of the ARV Defendants' fiduciary duties; and (viii) the voting or counting of votes of such shares would be in breach of Defendants' duties.

103. Emeritus seeks an injunction (i) rescinding and nullifying the Prometheus Transactions; (ii) directing that the 1,921,012 ARV shares issued to Prometheus pursuant to the First Prometheus Transaction may not be voted, or if voted may not be counted; (iii) directing that the common shares of ARV received by Prometheus as a result of the Redemption of the Notes may not be voted, or if voted may not be counted; and (iv) directing that the record and annual meeting dates not be moved or be moved only in accordance with Defendants' fiduciary duties. An injunction is necessary because (i) Emeritus has no adequate remedy at law; (ii) Emeritus will be irreparably harmed if an injunction is not issued; and (iii) granting an injunction will cause less harm to Defendants than denying an injunction will cause harm to Emeritus.

VIII.

SECOND CLAIM FOR RELIEF
BREACH OF FIDUCIARY DUTY: SALE OF CONTROL OF ARV AND FAILURE TO MAXIMIZE SHAREHOLDER VALUE
(DECLARATORY AND INJUNCTIVE RELIEF)

104. Emeritus repeats and realleges each and every allegation set forth in Paragraphs 1 through 103 as if fully set forth herein.

105. Defendants owe fiduciary duties to Emeritus. As fiduciaries, Defendants owe Emeritus the highest duties of care, loyalty, candor and good faith.

106. The Prometheus Transactions provide for, among other things, (i) the acquisition by Prometheus of up to 49.9% of all outstanding shares of ARV; (ii) mutual obligations on the part of Prometheus and ARV's Board to support each other's Board nominees, which have the effect of disenfranchising ARV's public shareholders; and (iii) restraints on Prometheus' sale of its stock. Because (i) upon conversion of the Notes and/or additional open-market purchases of ARV common shares by Prometheus or members of ARV's Board, the stock owned by Prometheus and the Board will constitute a majority position in ARV; (ii) those parties have interlocking obligations and interests created by the agreements; and (iii) those parties are acting in concert with respect to the control and management of ARV, the Prometheus Transactions constitute and effectuate a sale of control of ARV. Having determined to put control of ARV up for sale, the ARV Defendants unfairly and unlawfully

favored Prometheus and refused to enter discussions regarding, or to investigate in any reasonable way, Emeritus' proposals and offers. The ARV Defendants, aided and abetted by Defendants Freeman, Jacobs and Gunty, have thus breached their fiduciary duties by failing to maximize shareholder value. On information and belief, Defendants Freeman, Jacobs, Gunty and Phanstiel have done nothing since their appointment to the Board to rectify these continuing breaches of fiduciary duty.

107. By entering voting agreements with Prometheus and discriminating against Emeritus, the ARV Defendants have attempted to entrench themselves and enhance the value of their own block of shares at the expense of Emeritus and ARV's public shareholders. In particular, the voting agreements allow the ARV Defendants to perpetuate themselves in office and to command, with Prometheus, the entire value of any control premium from a would-be acquirer of ARV.

108. Emeritus has been harmed by Defendants' failure to consider its proposals and offers and ARV Defendants' rush to close the Prometheus Transactions and issue a substantial quantity of ARV stock and the Notes to Prometheus.

109. Emeritus seeks a declaration that (i) Defendants have breached

their fiduciary duties by failing to take prompt and diligent steps to maximize shareholder value; (ii) the ARV Defendants have breached their fiduciary duties by entering into and failing to revoke the Prometheus Transactions; (iii) those agreements are null and void or voidable by Defendants; (iv) the issuance of the Notes was in breach of the ARV Defendants' fiduciary duties; (v) the Redemption of the Notes into common shares of ARV was, and the voting or counting of votes of such shares would be, in breach of Defendants' fiduciary duties; (vi) the moving of the record and annual meeting dates was in breach of Defendants' fiduciary duties and illegal under California law; (vii) the issuance to Prometheus of ARV shares under the First Prometheus Transaction was in breach of the ARV Defendants' fiduciary duties, and (viii) the voting or counting of votes of such shares would be in breach of Defendants' duties.

110. Emeritus seeks an injunction (i) directing that Defendants take prompt and diligent steps to maximize shareholder value; (ii) rescinding and nullifying the Prometheus Transactions;(iii) directing that the 1,921,012 ARV shares issued to Prometheus pursuant to the First Prometheus Transaction may not be voted, or if voted may not be counted; (iv) directing that common shares of

ARV received by Prometheus as a result of the Redemption of the Notes may not be voted, or if voted may not be counted; and (v) directing that the record and meeting dates not be moved or be moved only in accordance with Defendants' fiduciary duties. An injunction is necessary because (i) Emeritus has no adequate remedy at law; (ii) Emeritus will be irreparably harmed if an injunction is not issued; and (iii) granting an injunction will cause less harm to Defendants than denying an injunction will cause harm to Emeritus.

IX.

THIRD CLAIM FOR RELIEF
BREACH OF FIDUCIARY DUTY: FAILURE TO EXERCISE DUE CARE IN CONSIDERING EMERITUS' PROPOSALS AND ENTERING INTO THE PROMETHEUS TRANSACTIONS
(DECLARATORY AND INJUNCTIVE RELIEF)

111. Emeritus repeats and realleges each and every allegation set forth in Paragraphs 1 through 110 as if fully set forth herein.

112. The ARV Defendants owe fiduciary duties to Emeritus. As fiduciaries, Defendants owe Emeritus the highest duties of care, loyalty, candor and good faith.

113. The ARV Defendants failed to exercise a reasonable amount of care and diligence in reviewing and rejecting Emeritus' July 10, 1997 proposal and thereby breached their fiduciary duties to Emeritus. The ARV Defendants rejected Emeritus' July 10 proposal three days after receiving it and without any opportunity to conduct appropriate due diligence with respect to it. The ARV Defendants did not even attempt to negotiate terms with Emeritus and refused to meet with Emeritus and its advisors to discuss the proposal further.

114. The ARV Defendants failed to exercise a reasonable amount of care and diligence in negotiating and entering into the First Prometheus Transaction. After receiving Emeritus' July 10, 1997 proposal, and driven by fear of losing their positions as directors and officers of ARV, the ARV Defendants unreasonably and in violation of their fiduciary duties rushed to enter into the First Prometheus Transaction on July 14, 1997. After Emeritus sent its July 23, 1997 letter to ARV objecting to numerous aspects of the First Prometheus Transaction, the ARV Defendants

unreasonably and in violation of their fiduciary duties rushed to close the first phase of the transaction (the sale of approximately 16% of ARV's stock) on July 25, 1997.

115. The ARV Defendants failed to exercise a reasonable amount of care and diligence in reviewing and rejecting Emeritus' October 12, 1997 proposal and thereby breached their fiduciary duties to Emeritus. The ARV Defendants rejected Emeritus' October 12 proposal two days after receiving it and without any opportunity to conduct appropriate due diligence with respect to it. The ARV Defendants did not even attempt to negotiate terms with Emeritus and refused to meet with Emeritus and its advisors to discuss the proposal further.

116. The ARV Defendants failed to exercise a reasonable amount of care and diligence in negotiating and entering into the Second Prometheus Transaction. After receiving Emeritus' October 12, 1997 proposal, and driven by fear of losing their positions as directors and officers of ARV and fear that the First Prometheus Transaction would be rejected by shareholders, the ARV Defendants unreasonably and in violation of their fiduciary duties rushed to enter into the Second Prometheus Transaction on October 29 and October 30, 1997. The ARV Defendants failed to exercise a reasonable amount of care and diligence in entering into and closing the Second Prometheus Transaction. Defendants failed to exercise reasonable care in deciding to redeem the Notes and in moving the record and meeting dates.

117. Emeritus has been harmed by Defendants' repeated breaches of fiduciary duty, aided and abetted by Defendants Freeman, Jacobs and Gunty, in failing to exercise due care in considering and rejecting its July 10, 1997 and October 12, 1997 proposals and in unreasonably rushing to enter into and close the Prometheus Transactions. On information and belief, Defendants Freeman, Jacobs, Gunty and Phanstiel have done nothing since their appointment to the Board to rectify these continuing breaches of fiduciary duty.

118. Emeritus seeks a declaration that (i) the ARV Defendants have breached their fiduciary duties by failing to exercise reasonable care and diligence as specified above; (ii) the Prometheus Transactions are null and void or voidable by Defendants; (iii) the issuance of the Notes was in breach of the ARV Defendants' fiduciary duties; (iv) the Redemption of the Notes into common shares of ARV was, and the voting or counting of votes of such shares would be in breach of Defendants'

fiduciary duties; (v) the moving of the record and annual meeting dates was in breach of Defendants' fiduciary duties and illegal under California law; (vi) the issuance to Prometheus of ARV shares under the First Prometheus Transaction was in breach of the ARV Defendants' fiduciary duties; and (vii) the voting or counting of votes of such shares would be, in breach of Defendants' duties.

119. Emeritus seeks an injunction (i) directing Defendants to enter into good faith negotiations with Emeritus, (ii) rescinding and nullifying the Prometheus Transactions and (iii) directing that the 1,921,012 ARV shares issued to Prometheus pursuant to the First Prometheus Transaction may not be voted, or if voted may not be counted, (iv) directing that the common shares of ARV received by Prometheus as a result of the Redemption of the Notes may not be voted, or if voted may not be counted, and (v) directing that the record and meeting dates not be moved or be moved only in accordance with Defendants' fiduciary duties. An injunction is necessary because (i) Emeritus has no adequate remedy at law, (ii) Emeritus will be irreparably harmed if an injunction is not issued, and (iii) granting an injunction will cause less harm to Defendants than denying an injunction will cause harm to Emeritus.

X.

FOURTH CLAIM FOR RELIEF
BREACH OF FIDUCIARY DUTY: IMPLEMENTATION OF THE POISON PILL
(DECLARATORY AND INJUNCTIVE RELIEF)

120. Emeritus repeats and realleges each and every allegation set forth in Paragraphs 1 through 119 as if fully set forth herein.

121. Defendants owe fiduciary duties to Emeritus. As fiduciaries, Defendants owe Emeritus the highest duties of care, loyalty, candor and good faith.

122. The ARV Defendants implemented the poison pill in response to Emeritus' July 10, 1997 proposal to ARV. Implementation of the poison pill was not a lawful and reasonable response to Emeritus' proposal and constituted a breach, aided and abetted by Defendants Freeman, Jacobs and Gunty, of the ARV Defendants' fiduciary duties. Likewise, the Individual Defendants' failure to revoke or redeem the poison pill constitutes a separate and continuing breach of their fiduciary duties.

123. The poison pill is discriminatory and violates, among others, Sections 203 and 400 of the California Corporations Code in that under the terms of the pill all shares of ARV are not granted the same rights, preferences, privileges and restrictions. Specifically, and among other things, (i) the shares owned by Prometheus are exempted from triggering the pill; and (ii) the Rights on shares owned by a shareholder become void when that shareholder becomes an Acquiring Person.

124. The poison pill is discriminatory and constitutes a breach of Defendants' fiduciary duties in that under the terms of the pill shareholders are not treated equally in connection with the issuance of the Rights.

125. Given Emeritus' announcement that it will commence a proxy contest against the resolutions being put to ARV's shareholders and Emeritus' offers and proposals to acquire the outstanding shares of ARV, Emeritus has been, and is being, harmed by Defendants' breaches of their fiduciary duties as alleged in this claim.

126. Emeritus seeks a declaration that (i) the ARV Defendants violated their fiduciary duties by implementing the poison pill; (ii) the ARV Defendants violated their fiduciary duties by exempting the shares owned by Prometheus from triggering the pill; and (iii) failure to redeem the poison pill or otherwise to amend it to make it inapplicable to Emeritus constitutes a breach of Defendants' fiduciary duties.

127. Emeritus seeks an injunction compelling Defendants to redeem the poison pill or otherwise to amend the poison pill to make it inapplicable to Emeritus. An injunction is necessary because (i) Emeritus has no adequate remedy

at law, (ii) Emeritus will be irreparably harmed if an injunction is not issued, and (iii) granting an injunction will cause less harm to Defendants than denying an injunction will cause harm to Emeritus.

XI.

FIFTH CLAIM FOR RELIEF
BREACH OF FIDUCIARY DUTY: REDEMPTION OF PROMETHEUS NOTES

128. Emeritus repeats and realleges each and every allegation set forth in Paragraphs 1 through 127 as if fully set forth herein.

129. Defendants owe fiduciary duties to Emeritus. As fiduciaries, Defendants owe Emeritus the highest duties of care, loyalty, candor and good faith.

130. The Individual Defendants redeemed the Notes and moved the record and annual meeting dates in response to Emeritus'November 24, 1997 announcement that it would solicit proxies for an alternative slate of directors for ARV's Board. The Notes were redeemed at a significant discount to market in exchange for some 4.3 million common shares of ARV to an investor of the Board's own choosing. As a result, those newly-issued shares are contractually required to be voted in favor of the reelection of the Board's director nominees. In addition, with the addition of 4.3 million newly-issued shares, Prometheus and the Board together control slightly less than 50% of the outstanding common shares of ARV and with the inclusion of certain ARV shares contained in an employee stock ownership plan may give Prometheus and Defendants absolute majority control of ARV. In light of the interlocking obligations and interests created by the Prometheus Transactions and the coordinated effort by the Board and Prometheus with respect to the control and management of ARV, the Redemption of the Notes constitutes a sale of control of ARV. Having determined to put ARV up for sale, Defendants unfairly and unlawfully favored Prometheus and have refused to enter discussions regarding, or to investigate in any reasonable way, Emeritus' proposals and offers. These actions indicate that Defendants redeemed the Notes for the purpose of entrenching themselves in office and preventing Emeritus from winning the proxy contest for the election of directors to the Board. Defendants failed to exercise due care in the redemption of the Notes and the moving of the record and annual meeting dates.

131. Emeritus has been harmed by Defendants failure to consider its proposals and offers and also, given Emeritus' announcement that it will

commence a proxy contest, by the issuance of 4.3 million ARV shares which must be voted in favor of Defendants' Board nominees.

132. Emeritus seeks a declaration that (i) the Redemption of the Notes into common shares of ARV was, and the voting or counting of votes of such shares would be, in breach of Defendants' fiduciary duties; (ii) the moving of the record and annual meeting dates was in breach of Defendants' fiduciary duties, and (iii) the Redemption of Notes is void or voidable by ARV.

133. Emeritus seeks an injunction that (i) rescinding and nullifying the Redemption of the Notes; (ii) directing that the approximately 4,285,704 shares issued to Prometheus as a result of the Redemption of the Notes may not be voted, or if voted may not be counted, and (iii) directing that the record and meeting dates may not be moved or be moved only in accordance with Defendants' fiduciary duties. An injunction is necessary because (i) Emeritus has no adequate remedy at law; (ii) Emeritus will be irreparably harmed if an injunction is not issued; and (iii) granting an injunction will cause less harm to Defendants than denying an injunction will cause harm to Emeritus.

XII.

PRAYER FOR RELIEF

WHEREFORE, Emeritus respectfully requests that this Court enter the following relief

1. A declaration that (i) Defendants have breached their fiduciary duties by entrenching ARV's existing board in office; (ii) the ARV Defendants have breached their fiduciary duties by entering into the Prometheus Transactions; (iii) the Prometheus Transactions are null and void or voidable by ARV; (iv) the issuance of the Notes was in breach of the ARV Defendants' fiduciary duties; (v) the Redemption of the Notes into common shares of ARV was, and the voting or counting of votes of such shares would be, in breach of Defendant's fiduciary duties; (vi) Defendants breached their fiduciary duties by moving the record and annual meeting dates; (vii) the issuance to Prometheus of ARV shares under the First Prometheus Transaction was in breach of the ARV Defendants fiduciary duties; (viii) the voting or counting of votes of such shares would be in breach of Defendant's duties; (ix) Defendants have breached their fiduciary duties by failing to take prompt and diligent steps that maximize shareholder value; and (x) the ARV Defendants have breached their fiduciary duties by failing to exercise reasonable care and diligence in considering Emeritus' proposals in entering into the Prometheus Transactions.

2. An injunction (i) rescinding and nullifying the Prometheus Transactions; (ii) directing that the 1,921,012 ARV shares issued to Prometheus pursuant to the First Prometheus Transaction may not be voted, or if voted may not be counted; (iii) directing that the common shares of ARV received by Prometheus as a result of the Redemption of the Notes may not be voted, or if voted may not be counted; (iv) directing that the record and annual meeting dates not be moved or be moved only

in accordance with Defendants' fiduciary duties; (v) directing that Defendants take prompt and diligent steps to maximize shareholder value; and (vi) directing Defendants to enter into good faith negotiations with Emeritus.

3. A declaration that (i) the ARV Defendants violated their fiduciary duties by implementing the poison pill; (ii) the ARV Defendants violated their fiduciary duties by exempting the shares owned by Prometheus from triggering the pill; and (iii) that failure to redeem the poison pill or otherwise to amend it to make it inapplicable to Emeritus constitutes a breach of Defendants' fiduciary duties;

4. A declaration that the actions of the Individual Defendants were not taken in good faith and in a manner reasonably believed to be in the best interests of ARV within the meaning of Section 317 of the California Corporations Code;

5. An injunction directing Defendants to redeem the poison pill or otherwise to amend the poison pill to make it inapplicable to Emeritus;

6. An order awarding Emeritus its costs and expenses in this action; and

7. Granting such other and further relief as the Court deems just and proper.

DATED: December 9, 1997

GIBSON, DUNN & CRUTCHER, LLP
WAYNE W. SMITH
JOSEPH P. BUSCH, III

DAVIS POLK & WARDWELL
MICHAEL P. CARROLL
JAMES H. R. WINDELS

By: /s/ JOSEPH P. BUSCH, III

Joseph P. Busch, III

Attorneys for Plaintiff
EMERITUS CORPORATION

[EMERITUS CORPORATION LETTERHEAD]

July 10, 1997

Gary L. Davidson
Chairman of the Board, President,
Chief Executive Officer
ARV Assisted Living, Inc.
245 Fischer Avenue, Suite D-1
Costa Mesa, California 92626

RE: PROPOSAL

Dear Mr. Davidson:

Starwood Capital Group, LLC ("Starwood") and Emeritus Corporation ("Emeritus") would like to present to you and your Board of Directors a detailed proposal for the acquisition of ARV Assisted Living, Inc. ("ARV"). As discussed below, alternative proposals would be designed to result in a minimum value of $14.00 per share to ARV shareholders, optional liquidity, and the opportunity to participate in the upside of the combined entities.

In the first alternative, Emeritus would acquire ARV in a tax free merger or similar business combination transaction in which ARV shareholders would receive Emeritus Common Stock equal in value to a minimum of $14.00 for each share of ARV Common Stock. Starwood, through a significant investment in Emeritus, would provide ongoing financing for the combined company.

In the second alternative, the ARV shareholders would be offered consideration consisting of Emeritus Common Stock and cash. The consideration would be valued at a minimum of $14.00 per ARV share of Common Stock and, at the election of the ARV shareholders, could consist of up to 50% in cash. Starwood, through its private $830 million investment fund, would provide financing for the cash portion of the offer and ongoing financing for the combined company.

Of course, a number of structuring, tax and regulatory considerations would have to be addressed before arriving at an agreement in principle, but the objective would be to achieve a minimum value of $14.00 per share for ARV shareholders and immediate liquidity if desired. Nevertheless, both Starwood and Emeritus, are familiar with ARV's assets and operations and will be in a position to accelerate the due diligence process.

As you know, Starwood has reviewed with your management team certain information, pursuant to that certain confidentiality agreement dated April 3, 1997, between ARV and Starwood. Starwood has of course not shared any such confidential information with Emeritus.

Independent of Starwood, Emeritus has visited and inspected 41 of 48 properties, analyzed publicly available financial information, and currently owns approximately 4.9% of the outstanding ARV common stock, which shares were acquired prior to any contact between Emeritus and Starwood.

Starwood and Emeritus believe that the combination of Emeritus, ARV, and Starwood would create the largest, strongest and fastest growing company in the assisted living industry. We also believe that these proposals provide a significant premium value to the ARV shareholders of over 35% above the current market price, and a superior value and more attractive liquidity option than other transactions you may be currently contemplating, while allowing them the flexibility of continuing their investment in what would be the dominant and fastest growing assisted living concern in the United States.

We propose that a meeting be held as soon as possible to discuss these proposals and explore possible structures and alternatives. We and our advisors are available to meet you in Costa Mesa at your earliest convenience. Please call us at (206) 298-2909 to arrange such a meeting.

Sincerely,

EMERITUS CORPORATION

By /s/ [SIG]

Its Chairman

Starwood Capital Group, LLC

By /s/ [SIG]

Its Managing Director

cc: Brad Razook
Sherwin Samuels, Esq.
Mike Stansbury, Esq.

[ARV LETTERHEAD]

July 11, 1997

Mr. Daniel R. Baty
Emeritus Corporation
3131 Elliott Avenue, Suite 500
Seattle, WA 98121-1031

Dear Dan:

Thank you for your July 10th fax. I have forwarded copies to each of the directors for their review. We are attempting to schedule a meeting next week to consider your proposal.

Sincerely yours,

/s/ [SIG]
Gary L. Davidson

GLD/ctc

P.S. I see from the national weather report that it's still cloudy in Seattle - it's sunny in Costa Mesa.

EXHIBIT 6

GIBSON, DUNN & CRUTCHER LLP
WAYNE W. SMITH, SBN 054593
JOSEPH P. BUSCH, III, SBN 070340
RAFFAELE G. FAZIO, SBN 185378
4 Park Plaza, Suite 1400
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(714) 451-3800

DAVIS POLK & WARDWELL
459 Lexington Avenue
New York, NY 10017
(212) 450-4000

Attorneys for Plaintiff
EMERITUS CORPORATION

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF ORANGE

EMERITUS CORPORATION,

Plaintiff,

v.

ARV ASSISTED LIVING, INC., a California corporation; DAVID P. COLLINS, an individual; JOHN A. BOOTY, an individual; R. BRUCE ANDREWS, an individual; JAMES M. PETERS, an individual; MAURICE J. DeWALD, an individual; JOHN J. RYDZEWSKI, an individual; ROBERT P. FREEMAN, an individual; KENNETH M. JACOBS, an individual; MURRY N. GUNTY, an individual; and HOWARD G. PHANSTIEL, an individual.

Defendants.

CASE NO. 787788

ASSIGNED FOR ALL PURPOSES TO JUDGE THOMAS N. THRASHER, DEPT. 13

STIPULATION PURSUANT TO SECTION 2021 OF THE CODE OF CIVIL PROCEDURE MODIFYING DISCOVERY PROCEDURES

Date of Filing
This Action: December 9, 1997
Trial date: None Set

The parties hereto, by and through their respective attorneys of record, enter

into this stipulation based on the following facts and circumstances:

1. On December 9, 1997, Plaintiff Emeritus Corporation ("Plaintiff") filed this action, and served Defendants herein.

2. On December 9, 1997, and prior to noon on that day, counsel for Emeritus gave notice of the intent of Emeritus to seek ex parte an order shortening time within which to conduct discovery and for an order preserving certain documents.

3. On December 9, 1997, Emeritus announced its intention to file a motion for preliminary injunction on or before January 7, 1998, to be heard on the Court's regular law and motion calendar on January 22, 1998. With a hearing on January 22, 1998, and pursuant to Local Rule 520, the briefing schedule will be as follows:

a. The motion for preliminary injunction and papers in support of said motion shall be filed and served by personal delivery on or before January 7, 1998;

b. The papers in opposition to said motion shall be filed and served by on or before January 15, 1998; and

c. The reply papers in support of said motion shall be filed and served by on or before January 20, 1998.

4. At least three of the prospective deponents noticed by Emeritus have travel plans that prevent them from being present during the period from December 20, 1997, through and including January 2, 1998.

5. The parties are negotiating in good faith regarding the form and content of a protective order to be entered in this action.

6. The parties have reached an agreement on the ex parte relief sought by Emeritus.

Based on the foregoing, the parties stipulate as follows:

1. Emeritus will, and hereby does, serve its First Request for Production of Documents to Defendants (the "First Request").

2. Defendants waive the provisions of Section 2031(b) of the California Code of Civil Procedure, and agree to produce documents in response to the First Request on December 16, 1997, at the Orange County offices of Gibson, Dunn & Crutcher, subject to the following terms and conditions:

a. Defendants' stipulation to this paragraph 2 shall be without prejudice to any other evidentiary objection that they might otherwise be entitled to assert; and

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b. The parties have reached an agreement on the form and content of a protective order for this matter.

3. Emeritus will, and hereby does, serve its Notice of Depositions on Defendants.

4. Defendants waive the provisions of Section 2025(b)(2) of the California Code of Civil Procedure, and agree to produce Messrs. Freeman and Rydzewski for their depositions at the times, dates and places indicated, or at such other times pursuant to an agreement of the parties.

5. Emeritus agrees that the depositions of Messrs. Freeman and Rydzewski will be completed on the dates commenced, and that Messrs. Freeman and Rydzewski will be free to take their previously scheduled trips as long as the depositions are completed by or before January 5, 1998.

6. Emeritus and Defendants agree that the times, dates and places noticed for the depositions of Messrs. Booty and Davidson are subject to change, and that Emeritus will accommodate the needs of the witnesses, counsel for the Defendants, and counsel for the witnesses as long as the depositions are completed by on or before January 5, 1998.

7. Emeritus will notify Defendants of the identity of the last person sought to be deposed by Emeritus by not later than December 19, 1997, after Emeritus has had an opportunity to review the documents produced by Defendants on December 16, 1997. Upon the identification of that individual, Defendants will use best efforts to produce that individual for deposition by on or before January 5, 1998.

8. Defendants agree to use best efforts, including requesting brokers and others in possession of relevant information, to preserve documents and records reflecting the identity of shareholders of ARV as of November 14, 1997 and December 1, 1997.

9. The parties agree that any papers filed in support of, in opposition to, or in reply to any motion for a preliminary injunction by Emeritus to be heard on January 22, 1998, shall be personally served on the day of filing to counsel for the opposite side at said counsel's offices in Orange County.

DATED: December 11, 1997

GIBSON, DUNN & CRUTCHER LLP
WAYNE W. SMITH
JOSEPH P. BUSCH, III
RAFFAELE G. FAZIO

DAVIS POLK & WARDWELL
MICHAEL P. CARROLL
JAMES H. R. WINDELS

By: /s/ RAFFAELE G. FAZIO

Raffaele G. Fazio

Attorneys for Plaintiff EMERITUS CORPORATION

DATED: December 11, 1997

LATHAM & WATKINS
H. STEVEN WILSON
R. BRIAN TIMMONS

By: /s/ R. BRIAN TIMMONS

R. Brian Timmons

Attorneys for Defendants ARV ASSISTED LIVING, INC., DAVID P. COLLINS, JOHN A. BOOTY, R. BRUCE ANDREWS, JAMES M. PETERS, MAURICE J. DeWALD, JOHN J. RYDZEWSKI, ROBERT P. FREEMAN, KENNETH M. JACOBS, MURRY N. GUNTY, and HOWARD G. PHANSTIEL

DECLARATION OF SERVICE BY FACSIMILE

I, Tara L. Hill, declare as follows:

I am employed in the County of Orange, State of California; I am over the age of eighteen years and am not a party to this action; my business address is 4 Park Plaza, Irvine, California 92614, in said County and State; I am readily familiar with Gibson, Dunn & Crutcher LLP's practice in its above-described Irvine office for telecopying documents; pursuant to that practice, documents to be telecopied are placed for collection at a designated location during designated hours and are telecopied that same day in the ordinary course of business; on the 12th day of December, 1997, I caused to be telecopied the attached:

STIPULATION PURSUANT TO SECTION 2021 OF THE CODE OF CIVIL PROCEDURE MODIFYING DISCOVERY PROCEDURES

by telecopying a copy to each of the persons named below at the address and telecopier number shown on:

SEE ATTACHED SERVICE LIST

William J. Cernius
R. Brian Timmons
LATHAM & WATKINS
650 Town Center Drive, 20th Floor
Costa Mesa, CA 92626
(714) 540-1235
(714) 755-8290 Facsimile

I declare under penalty of perjury that the foregoing is true and correct and that this Declaration was executed on this 12th day of December, 1997, at Irvine, California.

/s/ TARA L. HILL

Tara L. Hill