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BEVERLY ENTERPRISES INC
Form PRER14A
March 11, 2005

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

SCHEDULE 14A
(AMENDMENT NO. 2)

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

- Filed by the Registrant [X]
Filed by a Party other than the Registrant []
Check the appropriate box:
 [X] Preliminary Proxy Statement
 [] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 [] Definitive Proxy Statement
 [] Definitive Additional Materials
 [] Soliciting Material Pursuant to Rule 14a-12

BEVERLY ENTERPRISES, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

- Payment of Filing Fee (Check the appropriate box):
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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY
SUBJECT TO COMPLETION

(BEVERLY ENTERPRISES, INC. LETTERHEAD)

March , 2005

Dear Fellow BEI Stockholder:

It is our pleasure to invite you to attend the 2005 Annual Meeting of stockholders of Beverly Enterprises, Inc., to be held at our corporate headquarters at One Thousand Beverly Way, Fort Smith, Arkansas at 10:00 a.m. local time on April 21, 2005.

We urge you to participate in this Annual Meeting by completing and returning the enclosed WHITE proxy card as promptly as possible. This Annual Meeting is of particular importance to all BEI stockholders because:

- A group including Arnold Whitman, the Chief Executive Officer of Formation Capital, LLC and Appaloosa Management L.P., a New Jersey based hedge fund, among others, is attempting to take control of your company's Board at the meeting as part of its efforts to acquire BEI.
- As described in the accompanying Proxy Statement, your Board's unanimous view is that the transactions proposed by this group are not in the best interests of BEI stockholders and significantly undervalue BEI.

For the reasons more fully described in the accompanying Proxy Statement, your Board strongly recommends that you protect your investment in BEI by voting:

- "FOR" the BEI nominees for director; and
- "AGAINST" the Whitman/Appaloosa group proposals under Items 3-5 on the enclosed WHITE proxy card.

Please, sign, date and return the WHITE proxy card in the accompanying

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postage paid envelope. Whether or not you plan to attend the Annual Meeting, we hope that you will vote as promptly as possible.

Your Board urges you NOT to sign or return any blue proxy card sent to you by the Whitman/Appaloosa group for any reason, even as a protest against their activities. If you have previously returned a blue proxy card, you may change any vote you may have cast in favor of the Whitman/Appaloosa group proposals and vote in favor of the election of the BEI nominees, by signing and returning the enclosed WHITE proxy card in the accompanying envelope. Any signed blue proxy card you return - even if it reflects votes "AGAINST" the Whitman/Appaloosa group proposals - will cancel any votes reflected on any WHITE proxy card you may have previously returned. The properly executed proxy card you submit with the latest date will be the one honored. We urge you to disregard any blue proxy card sent to you.

On behalf of everyone at BEI, we thank you for your continued support. We remain committed to acting in your best interests. If you have any questions or need any assistance in voting your shares, please feel free to call one of our proxy solicitors, Innisfree M&A Incorporated or Georgeson Shareholder Communications Inc., at one of the telephone numbers set forth below.

Sincerely,

William R. Floyd
Chairman, President and
Chief Executive Officer

If your shares are registered in the name of a broker, only your broker can execute a proxy and vote your shares and only after receiving your specific instructions. Please sign, date and promptly mail the WHITE voting instruction card in the envelope provided by your broker. Remember, your shares cannot be voted unless you return a signed and executed voting instruction card to your broker. If you have any questions or need further assistance in voting, please contact one of the firms assisting us in the solicitation of proxies:

GEORGESON SHAREHOLDER COMMUNICATIONS INC.

Stockholders call (877) 278-4793 (toll-free in the United States and Canada)
Banks and Brokers call (212) 440-9800 (collect)

INNISFREE M&A INCORPORATED

Stockholders call (877) 825-8730 (toll-free in the United States and Canada)
Banks and Brokers call (212) 750-5833 (collect)

The Proxy Statement is dated March , 2005 and is first being mailed to
stockholders
on or about March , 2005.

BEVERLY ENTERPRISES, INC.

ONE THOUSAND BEVERLY WAY
FORT SMITH, ARKANSAS 72919
(479) 201-2000

NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS

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TIME AND DATE..... 10:00 a.m., CDT, on Thursday, April 21, 2005

PLACE..... Beverly Enterprises, Inc.
One Thousand Beverly Way
Fort Smith, Arkansas 72919

ITEMS OF BUSINESS..... (1) Election of eight directors. YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" ELECTION OF THE EIGHT BEI DIRECTOR NOMINEES (Item 1 on the enclosed WHITE proxy card).

(2) Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2005. YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL (Item 2 on the enclosed WHITE proxy card); and

(3) Transaction of any other business properly brought before the Annual Meeting, including at any adjournment or postponement of the Annual Meeting.

RECORD DATE..... If you were a stockholder as of the close of business on March 7, 2005 (the "Record Date"), you are entitled to vote and attend the Annual Meeting.

ANNUAL REPORT..... WE WILL FURNISH A COPY OF OUR ANNUAL REPORT CONTAINING OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 TO BEI STOCKHOLDERS AS PROMPTLY AS PRACTICABLE ON OR AFTER MARCH 15, 2005 AND IN NO EVENT LATER THAN APRIL 1, 2005, A DATE 20 CALENDAR DAYS BEFORE THE DATE OF THE 2005 ANNUAL MEETING.

PROXY VOTING..... It is important that your shares of stock be represented and voted at the meeting. Please SIGN, DATE AND PROMPTLY RETURN the enclosed WHITE proxy card in the postage-paid envelope.

Any proxy may be revoked at any time prior to its exercise at the meeting by following the instructions in the Proxy Statement.

March __, 2005

DOUGLAS J. BABB
Secretary

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PROXY STATEMENT FOR
BEVERLY ENTERPRISES, INC. ("BEI")
2005 ANNUAL STOCKHOLDERS MEETING

ANSWERS TO FREQUENTLY ASKED QUESTIONS

1. Q. WHY AM I RECEIVING THESE PROXY MATERIALS?

A. BEI's Board of Directors is asking for the right to vote your shares as your proxy or agent at the Annual Meeting. Acting as your proxy, a member of the Proxy Committee, appointed by the Board, will vote your shares as you instruct on your proxy card. This Proxy Statement discusses the

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issues to be voted on. Each share you own is entitled to one vote on each matter considered at the Annual Meeting.

2. Q. ON WHICH PROPOSALS MAY I VOTE?

A. You will be voting on:

- (1) Election of eight directors;
- (2) Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2005; and
- (3) Approval or disapproval of any other business properly presented for a vote at the Annual Meeting. Please see Question and Answer 5 and Question and Answer 6 below.

3. Q. WHO IS BEING NOMINATED FOR ELECTION AS A DIRECTOR?

A. Your Board has nominated William R. Floyd, Melanie Creagan Dreher, Ph.D., John D. Fowler, Jr., John P. Howe, III, M.D., James W. McLane, Ivan R. Sabel, Donald L. Seeley and Marilyn R. Seymann, Ph.D., for election as directors at the Annual Meeting. Additional information about each of the BEI nominees is included under the heading "BEI Nominees for the Board of Directors" below.

As you may know, a group including Arnold Whitman, the Chief Executive Officer of Formation Capital, LLC and Appaloosa Management L.P., a New Jersey based hedge fund, among others, has acquired over eight percent of our outstanding stock and has sent us two letters proposing an acquisition of BEI. This group, through Mr. Whitman, has nominated six individuals for election as directors of BEI at the Annual Meeting in order to take control of the Board and further their attempt to acquire BEI.

Your Board has unanimously determined that the transactions proposed by the Whitman/Appaloosa group significantly undervalue BEI and are not in the best interests of BEI or its stockholders.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" ELECTION OF THE EIGHT BEI DIRECTOR NOMINEES (ITEM 1 ON THE ENCLOSED WHITE PROXY CARD).

We urge you NOT to sign or return any blue proxy card sent to you by the Whitman/Appaloosa group for any reason, which would void any earlier-dated proxy. The best way to support your Board is by voting:

- "FOR" BEI's nominees for director; and
- "AGAINST" Items 3-5 on the enclosed WHITE proxy card (the Whitman/Appaloosa group proposals).

4. Q. WHAT VOTE IS REQUIRED TO ELECT DIRECTORS?

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A. With respect to the election of directors, you may:

- Vote for the election of any or all of the eight BEI director nominees;
or
- Withhold authority to vote for any or all of the eight BEI director nominees.

You may take any of these actions by marking the appropriate spaces on the enclosed WHITE proxy card. If you submit your signed WHITE proxy card without indicating how you wish to vote, your shares will be voted "FOR" the election of the BEI director nominees.

If you receive a proxy statement from the Whitman/Appaloosa group or attend the Annual Meeting, you may also be able to vote on their nominees for election as directors at the Annual Meeting.

BEI's By-Laws provide that directors will be elected by a plurality of votes cast, in person or by proxy, and entitled to vote at the Annual Meeting at which a quorum is present. Stockholders do not have the right to cumulate votes in the election of directors. Accordingly, the eight nominees receiving the highest vote totals will be elected as directors of BEI. Votes that are withheld in the election of directors and broker non-votes will not be taken into account for purposes of determining the outcome of the election.

The only way to vote by proxy "FOR" the BEI nominees is to sign, date and return the enclosed WHITE proxy card. Do NOT sign or return any blue proxy card sent to you by the Whitman/Appaloosa group for any reason, even as a protest against their activities. The best way to support your Board is by voting:

- "FOR" BEI's nominees for director; and
- "AGAINST" Items 3-5 on the enclosed WHITE proxy card (the Whitman/Appaloosa group proposals).

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" ELECTION OF THE EIGHT BEI DIRECTOR NOMINEES (ITEM 1 ON THE ENCLOSED WHITE PROXY CARD).

5. Q. WHAT BUSINESS OTHER THAN THE ELECTION OF DIRECTORS WILL BE CONDUCTED AT THE ANNUAL MEETING?

A. BEI has set forth Proposal No. 2, which asks the stockholders to ratify the appointment of Ernst & Young LLP as BEI's independent registered public accounting firm for 2005.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL (ITEM 2 ON THE ENCLOSED WHITE PROXY CARD).

We also have received notice from Arnold M. Whitman, the Chief Executive Officer of Formation Capital, that he intends to bring the following proposals before the Annual Meeting for consideration by BEI's stockholders:

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- A proposal to amend our By-Laws to fix the number of directors constituting the entire Board at eight (Item 3 on the enclosed WHITE proxy card);
- A proposal to repeal any amendment to our By-Laws adopted after May 29, 1997, other than the proposed amendment described above (Item 4 on the enclosed WHITE proxy card); and
- A proposal to require that the foregoing proposals be presented prior to the election of directors and before any other business is conducted at the Annual Meeting (Item 5 on the enclosed WHITE proxy card).

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "AGAINST" EACH OF THESE PROPOSALS SUBMITTED BY THE WHITMAN/APPALOOSA GROUP (ITEMS 3-5 ON THE ENCLOSED WHITE PROXY CARD). More information regarding these

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proposals, and the reasons for your Board's recommendation, may be found under the heading "Other Matters" below.

6. Q. WHAT VOTE IS REQUIRED FOR THE OTHER PROPOSALS THAT MAY BE CONSIDERED AT THE ANNUAL MEETING?

- A. The affirmative vote of the holders of a majority of the shares present, in person or by proxy, and entitled to vote on this proposal at the Annual Meeting at which a quorum is present is required for stockholder ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2005.

You may vote for or against this proposal or abstain from voting. Abstentions will have the same effect as if you voted "against" this proposal. If this proposal is contested, broker non-votes will not affect the outcome of the vote on this matter.

If you submit your signed WHITE proxy card and either vote for this proposal or do not indicate a vote, you will be voting for the proposal. If you submit your signed WHITE proxy card and either vote against this proposal or "abstain" from voting, then you will be voting against the proposal.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP (ITEM 2 ON THE ENCLOSED WHITE PROXY CARD).

Under BEI's By-Laws, the affirmative vote of the holders of a majority of the outstanding shares of BEI common stock is required to amend or repeal the By-Laws. As a result, the affirmative vote of the holders of a majority of the outstanding shares of BEI common stock is required to amend our By-Laws to fix the number of directors constituting the entire Board at eight or to repeal any amendment to our By-Laws adopted after May 29, 1997. In addition, the affirmative vote of the holders of a majority of the shares present, in person or by proxy, and entitled to vote on the matter at the Annual Meeting at which a quorum is present is required to approve the proposal to conduct business in the order proposed by the Whitman/Appaloosa group.

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You may vote for or against each of these matters or abstain from voting with respect to each of these matters. Abstentions with respect to any of these proposals will have the same effect as a vote against such proposals. Broker non-votes will have the same effect as a vote against the proposals to amend our By-Laws. Broker non-votes will not affect the outcome of the vote with respect to the proposal to conduct business in the order proposed by the Whitman/Appaloosa group.

If you submit your signed WHITE proxy card and vote for any of the Whitman/Appaloosa group proposals, you will be voting for such proposal. If you submit your signed WHITE proxy card and either vote against any of the Whitman/Appaloosa group proposals, "abstain" from voting or do not indicate a vote, then you will be voting against such proposals.

YOUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE "AGAINST" EACH OF ITEMS 3-5 ON THE ENCLOSED WHITE PROXY CARD.

7. Q. HOW DOES OUR BOARD RECOMMEND I VOTE ON THE ENCLOSED WHITE PROXY CARD?

A. Your Board unanimously recommends you vote:

- "FOR" each BEI director nominee (Item 1 on the enclosed WHITE proxy card); and
- "FOR" ratification of the appointment of Ernst & Young LLP as BEI's independent registered public accounting firm for 2005 (Item 2 on the enclosed WHITE proxy card).

We have not made any changes to our By-Laws since May 19, 1997. Your Board unanimously recommends you vote "AGAINST" the proposals to amend our By-Laws to fix the number of directors constituting the entire Board at eight, to repeal any amendment to our By-Laws adopted after May 29, 1997 and to conduct business in the order proposed by the Whitman/Appaloosa group (Items 3-5 on the enclosed WHITE proxy card).

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8. Q. WHO IS ENTITLED TO VOTE?

A. Stockholders as of the close of business on March 7, 2005 (the "Record Date") are entitled to vote at the Annual Meeting. As required by Delaware law, a list of stockholders entitled to vote at the Annual Meeting will be available at the Annual Meeting on April 21, 2005 and for 10 days prior to the meeting, during normal business hours, at BEI's corporate office located at One Thousand Beverly Way, Fort Smith, Arkansas 72919.

9. Q. DOES HOLDING MY STOCK IN A BROKERAGE ACCOUNT AFFECT MY ENTITLEMENT TO VOTE?

A. If your shares are held in the name of a broker, only your broker can execute a proxy and vote your shares. Please sign, date and promptly mail the WHITE voting instruction card in the envelope provided by your broker. Remember, your shares cannot be voted (except with respect to the ratification of the appointment of Ernst & Young LLP as our independent

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registered public accounting firm, so long as such proposal is not contested at the time of the Annual Meeting) unless you return a signed and dated voting instruction card to your broker or attend the Annual Meeting to vote your shares in person. If your shares are held in the name of a broker, and you intend to attend the Annual Meeting and vote your shares in person, you must obtain a legal proxy, executed in your favor, from your broker to be able to vote at the Annual Meeting. However, you should still sign, date and promptly mail the WHITE voting instruction card in the envelope provided by your broker to preserve your right to vote. If you attend the Annual Meeting and vote, your proxy will be revoked.

10. Q. WHAT HAPPENS IF I DON'T INSTRUCT MY BROKER HOW TO VOTE?

A. If you don't return a voting instruction card, your broker will not be able to vote on Items 1, 3, 4 and 5. Your broker will be able to vote with respect to Item 2 only if that proposal is not contested at the time of the Annual Meeting. Therefore, if you do not return a voting instruction card:

- your vote will not be taken into account for purposes of determining the outcome of the election of directors;
- your broker will have discretion to vote with respect to the ratification of the appointment of Ernst & Young LLP, assuming the ratification is uncontested;
- your vote will not be taken into account with respect to the proposals to amend our By-Laws, which will have the same effect as a vote against the proposals; and
- your vote will not be taken into account for purposes of determining the outcome of the proposal to conduct business in the order proposed by the Whitman/Appaloosa group.

11. Q. WHAT HAPPENS IF I DO NOT VOTE THE SHARES REGISTERED IN MY NAME?

A. If your shares are held in a registered account maintained by the transfer agent, The Bank of New York, your shares will not be voted or considered in the determination of a quorum unless you submit a proxy card or vote at the Annual Meeting.

12. Q. WHAT IS A "QUORUM"?

A. A "quorum" is a majority of BEI's issued and outstanding shares of common stock and is required to hold the Annual Meeting. As of the Record Date, there were 108,787,095 shares of BEI common stock issued and outstanding, all of one class and each having one vote. There must be at least 54,393,548 shares present or represented by proxy at the Annual Meeting for business to be transacted. If you send the enclosed WHITE proxy card to BEI, your shares will be considered part of the "quorum," regardless of how you vote.

13. Q. HOW DO I VOTE?

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- A. YOUR VOTE IS IMPORTANT. You may vote by mail or by attending the Annual Meeting and voting by ballot, all as described below.

VOTE BY MAIL

If you choose to vote by mail, simply date and sign your WHITE proxy card or voting instruction card and return it in the postage-paid envelope provided. If the envelope is missing, please mail your completed WHITE proxy card to Innisfree M&A Incorporated, P.O. Box 5154, FDR Station, New York, NY 10150-5154, or your completed voting instruction card to your broker, bank or nominee.

If you return your signed WHITE proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted by a member of BEI's Proxy Committee in accordance with your Board's recommendations described in this Proxy Statement. The members of the Proxy Committee are Douglas J. Babb, William R. Floyd and Jeffrey P. Freimark.

VOTING AT THE ANNUAL MEETING

The method or timing of your vote will not limit your right to vote at the Annual Meeting if you attend the meeting and vote in person. However, if your shares are held in the name of a broker, you must obtain a legal proxy, executed in your favor, from your broker to be able to vote at the Annual Meeting. You should allow yourself enough time prior to the Annual Meeting to obtain this proxy from the holder of record.

The shares represented by the proxy cards received, properly marked, dated, signed and not revoked will be voted at the Annual Meeting.

14. Q. CAN I REVOKE OR CHANGE MY VOTE AFTER I RETURN A PROXY CARD?

- A. You can revoke any proxy you give at any time before your shares are voted. You can revoke a proxy in any one of three ways:

- submit a valid, later-dated proxy card;
- notify BEI's Corporate Secretary in writing at One Thousand Beverly Way, Fort Smith, Arkansas 72919, before the Annual Meeting that you have revoked your proxy; or
- vote in person at the Annual Meeting.

Attendance at the meeting in itself will not constitute revocation of a proxy.

If you have returned a blue proxy card to the Whitman/Appaloosa group, we urge you to revoke your proxy by signing, dating and returning the enclosed WHITE proxy card to BEI.

15. Q. WHAT DOES IT MEAN IF I GET MORE THAN ONE WHITE PROXY CARD?

- A. If your shares are registered differently and are in more than one account, you will receive more than one WHITE proxy card. PLEASE SIGN AND RETURN ALL WHITE PROXY CARDS TO ENSURE THAT ALL OF YOUR SHARES ARE VOTED.

16. Q. WHO WILL COUNT THE VOTES?

- A. Representatives of IVS Associates, Inc., an independent tabulator appointed by the Board of Directors, will count the votes and act as

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inspectors of election. The inspectors of election shall have the authority to receive, inspect, electronically tally and determine the validity of proxies received.

17. Q. HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

- A. Other than those items described in this Proxy Statement, we do not know of any business to be conducted at the Annual Meeting. However, if any other business is properly presented, your signed WHITE proxy card gives authority to each member of the Proxy Committee to vote or refrain from voting on such matters at his discretion.

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18. Q. HOW DO I VOTE IF I PARTICIPATE IN THE EMPLOYEE STOCK PURCHASE PLAN OR THE BEVERLY ENTERPRISES, INC. 401(K) SAVINGSPLUS PLAN?

- A. Computershare, as administrator of the Employee Stock Purchase Plan, is the record holder of the shares held in BEI's Employee Stock Purchase Plan. If you are a participant in the Employee Stock Purchase Plan, your shares are held in a nominee position with Computershare's broker dealer, Merrill Lynch. Computershare will seek instructions from you on how to vote and convey those instructions to Merrill Lynch, who in turn will vote your shares.

Similarly, Diversified Investment Advisors, as recordkeeper of the Beverly Enterprises, Inc. 401(k) SavingsPlus Plan, is the record holder of the shares held in the plan. If you are a participant in the Beverly Enterprises, Inc. 401(k) SavingsPlus Plan, your shares are held in a nominee position with Investors Bank and Trust, the 401(k) Plan trustee. Diversified Investment Advisors will seek instructions from you on how to vote and convey those instructions to Investors Bank and Trust, who in turn will vote your shares.

19. Q. WHO CAN ATTEND THE ANNUAL MEETING?

- A. Admission to the Annual Meeting is limited to stockholders of BEI, persons holding validly executed proxies from stockholders who held BEI common stock at the close of business on March 7, 2005, and invited guests of BEI.

If you are a stockholder of BEI, you must bring certain documents with you in order to be admitted to the Annual Meeting. The purpose of this requirement is to help us verify that you are actually a stockholder of BEI. Please read the following rules carefully, because they specify the documents that you must bring with you to the Annual Meeting in order to be admitted. The items that you must bring with you differ depending upon whether you are a record holder or hold your stock in "street name".

Proof of ownership of BEI common stock must be shown at the door. Failure to provide adequate proof that you were a stockholder on the record date may prevent you from being admitted to the Annual Meeting.

IF YOU WERE A RECORD HOLDER OF BEI COMMON STOCK ON MARCH 7, 2005, THEN YOU MUST BRING A VALID GOVERNMENT-ISSUED PERSONAL IDENTIFICATION (SUCH AS A DRIVER'S LICENSE OR PASSPORT).

IF A BROKER WAS THE RECORD HOLDER OF YOUR SHARES OF BEI COMMON STOCK ON

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MARCH 7, 2005, THEN YOU MUST BRING:

- Valid government-issued personal identification (such as a driver's license or passport); and
- Proof that you beneficially owned shares of BEI common stock at the close of business on March 7, 2005.

Examples of proof of beneficial ownership include the following (1) a letter from your bank or broker stating that you owned BEI common stock on March 7, 2005; (2) a brokerage statement indicating that you owned BEI common stock on March 7, 2005; or (3) a copy of the voting instruction card provided by your broker indicating that you owned BEI common stock on March 7, 2005.

IF YOU ARE A PROXY HOLDER FOR A STOCKHOLDER OF BEI, THEN YOU MUST BRING:

- The validly executed proxy naming you as the proxy holder, signed by a stockholder of BEI who owned shares of BEI common stock on March 7, 2005;
- Valid government-issued personal identification (such as a driver's license or passport); and
- If the stockholder whose proxy you hold was not a record holder of BEI common stock on March 7, 2005, proof of the stockholder's beneficial ownership of shares of BEI common stock on March 7, 2005, in the form of a letter or statement from a broker or the voting instruction card provided by the broker, in each case indicating that the stockholder owned BEI common stock on March 7, 2005.

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You may not use cameras, recording equipment or other electronic devices during the Annual Meeting.

20. Q. WHEN ARE THE STOCKHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING DUE?

- A. All stockholder proposals to be considered for inclusion in next year's proxy statement must be submitted in writing for receipt by November 1, 2005. They should be sent to the CORPORATE SECRETARY, BEVERLY ENTERPRISES, INC., ONE THOUSAND BEVERLY WAY, FORT SMITH, AR 72919.

Additionally, BEI's advance notice by-law provision requires that any stockholder proposal to be presented from the floor of the 2006 Annual Meeting be received by the Corporate Secretary at least seventy-five (75) days before the meeting. It is currently expected that the 2006 Annual Meeting will be held on April 20, 2006. If this is the date set by the Board, stockholder proposals to be presented from the floor will be due by February 4, 2006. Proposals may be presented from the floor only after a determination has been made that it is a proper matter for consideration.

21. Q. CAN A STOCKHOLDER RECOMMEND SOMEONE TO BE A NOMINEE FOR ELECTION AS A DIRECTOR AT THE 2006 ANNUAL MEETING?

- A. As a stockholder, you may recommend any person to be a nominee for director by writing to the Chairman of the Nominating and Compensation Committee of the Board, c/o the Corporate Secretary at BEI's address above. The recommendations must be received by BEI no later than the date by which stockholder proposals must be received to be considered for

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inclusion in the proxy statement, which is the first date set forth in Question and Answer 20 above. Each recommendation must be accompanied in writing by the following information:

- name and address of the stockholder recommending the nomination;
- a representation that the stockholder recommending the nomination is a record holder;
- a representation that the stockholder recommending the nomination intends to appear in person or by proxy at the Annual Meeting to nominate the person or persons specified;
- information regarding each recommended potential director nominee that would be required to be included in a proxy statement;
- a description of any arrangements or understandings between the stockholder recommending the nomination and the recommended potential director nominee; and
- the consent of each recommended potential director nominee to serve as a director, if elected.

22. Q. ARE THERE ANY SPECIFIC, MINIMUM QUALIFICATIONS FOR DIRECTOR NOMINEES?

A. The Nominating and Compensation Committee of the Board has established certain criteria it considers as a guideline in considering nominations to BEI's Board of Directors. The criteria include: character, knowledge, experience, education, business judgment, diligence, stock ownership, independence, loyalty, reputation and ability to contribute to board balance and diversity. These criteria are not exhaustive, and the Nominating and Compensation Committee and the Board of Directors may consider other qualifications and attributes which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors.

23. Q. WHAT IS THE NOMINATING AND COMPENSATION COMMITTEE'S PROCESS OF IDENTIFYING AND EVALUATING NOMINEES?

A. Prior to each Annual Meeting of stockholders at which directors are to be elected, and whenever there is otherwise a vacancy on the Board of Directors, the Nominating and Compensation Committee will consider incumbent Board members and other well-qualified individuals as potential director nominees. The Nominating and Compensation Committee will determine whether to retain an executive search firm to identify Board candidates. If an executive search firm is retained, the Nominating and Compensation Committee will select the search firm, approve the search firm's fees

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and other retention terms and specify for the search firm the criteria to use in identifying potential candidates consistent with the director qualification criteria described above. The Nominating and Compensation Committee will review each potential candidate. Management may assist the Nominating and Compensation Committee in the review process at the Committee's direction. The Nominating and Compensation Committee will select the candidate or candidates it believes are the most qualified to recommend to the Board for selection as a director nominee. Candidates recommended by a security holder will be evaluated in the same manner as candidates identified by the Nominating and Compensation Committee.

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With the exception of Melanie Creagan Dreher, Ph.D., each of the nominees for election as a director at the 2005 Annual Meeting was elected at the Annual Meeting of stockholders held in 2004. Dr. Dreher was initially identified as a potential candidate by a professional search firm. The qualifications of Dr. Dreher were then reviewed by the members of the Nominating and Compensation Committee. All of the BEI nominees are recommended by the Nominating and Compensation Committee to stand for election by the stockholders.

24. Q. WHO IS SOLICITING MY PROXY?

- A. Under applicable regulations of the SEC, each of our directors, certain officers of BEI and certain other persons may be deemed to be "participants" in BEI's solicitations of proxies in connection with the Annual Meeting. For information with respect to each participant in BEI's solicitation of proxies in connection with the Annual Meeting, please refer to (i) the table of security ownership of directors and executive officers under the heading "Security Ownership of Certain Beneficial Owners and Management", (ii) the discussion under the headings "Executive Compensation" and "Employment Contracts, Termination of Employment and Change in Control Agreements", and (iii) Schedules I and II to this Proxy Statement.

For additional information regarding BEI's solicitation of proxies, please see "Solicitation of Proxies" below.

25. Q. HOW CAN I OBTAIN COPIES OF BEI'S PERIODIC AND CURRENT REPORTS FILED WITH THE SEC?

- A. Our periodic and current reports are available, free of charge, on BEI's website at <http://www.beverlycorp.com>(1) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

26. Q. HOW CAN I OBTAIN COPIES OF BEI'S CORPORATE GOVERNANCE GUIDELINES, AUDIT AND COMPLIANCE COMMITTEE CHARTER AND NOMINATING AND COMPENSATION COMMITTEE CHARTER?

- A. Our Corporate Governance Guidelines, Audit and Compliance Committee Charter and Nominating and Compensation Committee Charter are available, free of charge, on BEI's website at <http://www.beverlycorp.com>. We will also provide copies of these documents in printed form at the request of any stockholder.

27. Q. HAS BEI ADOPTED A CODE OF BUSINESS CONDUCT AND ETHICS, AND IF SO, HOW CAN I OBTAIN A COPY?

- A. In early 2004, we adopted an amended and restated Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, and a Code of Ethics for Senior Financial Officers that applies to our principal executive officer, principal financial officer, controller and other persons serving similar functions. Each of these codes is available, free of charge, on BEI's website at <http://www.beverlycorp.com>. We will also provide a copy in printed form at the request of any stockholder.

(1) The references to BEI's website address in this Proxy Statement are not intended to function as a hyperlink, and the information contained on BEI's website is not a part of this Proxy Statement.

28. Q. DOES BEI'S BOARD OF DIRECTORS PROVIDE A PROCESS FOR STOCKHOLDERS TO SEND COMMUNICATIONS TO THE BOARD?

A. Stockholders may send correspondence to the Board of Directors c/o the Corporate Secretary at One Thousand Beverly Way, Fort Smith, Arkansas 72919. The Corporate Secretary will review all correspondence addressed to the Board or to any individual Board member. The Corporate Secretary will determine whether correspondence should be forwarded to the Board or would be more appropriately answered by management. The Corporate Secretary will summarize all correspondence not forwarded to the Board and make the summaries of the correspondence periodically available to the Board for its review. At the Board's request, the Corporate Secretary will provide the Board with the actual correspondence underlying the summaries.

29. Q. DO I HAVE DISSENTERS' RIGHTS?

A. No dissenters' rights apply to any matter to be acted upon at this meeting.

BACKGROUND

On December 16, 2004, Arnold M. Whitman, the Chief Executive Officer of Formation Capital, called William R. Floyd, our Chairman, President and Chief Executive Officer, and expressed an interest in a possible transaction involving BEI.

On December 27, 2004, Mr. Floyd received a letter, dated December 22, 2004, from Formation Capital expressing an interest by Formation Capital, Appaloosa Management L.P. and Franklin Mutual Advisers, LLC in acquiring BEI for \$11.50 per share. The letter also suggested that this group would be prepared to discuss a transaction involving the purchase of our real estate assets and nursing facilities operations, leaving BEI with its ancillary service businesses. In its letter, Formation Capital indicated that this group owned approximately 4.5% of our outstanding common stock. The letter also indicated that the proposal was being provided to BEI on a confidential basis and that Formation Capital expected that BEI would not disclose the proposal to anyone other than BEI's Board and advisors.

Mr. Floyd promptly forwarded this letter to the entire Board and convened a Board meeting on December 30, 2004 to discuss the letter. Following that meeting, we retained Latham & Watkins LLP and Lehman Brothers Inc. as our legal and financial advisors, respectively, to assist the Board in fully evaluating the December 22 letter. Subsequently, we also retained J.P. Morgan Securities Inc. as a financial advisor.

On January 5, 2005, and in subsequent telephone conversations, Mr. Floyd advised Mr. Whitman that -- consistent with its fiduciary obligations and acting in good faith -- the BEI Board would meet to carefully consider the Whitman/Appaloosa group's expression of interest in an acquisition of BEI at a special meeting in late January.

Mr. Whitman called Mr. Floyd during the week of January 10, 2005. During this conversation, Mr. Floyd informed Mr. Whitman that the BEI Board would be

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meeting the following week and Mr. Whitman told Mr. Floyd that he might like to provide further information for the BEI Board to consider with respect to the transactions described in Formation Capital's December 22 letter. Mr. Floyd urged Mr. Whitman to provide that information quickly so the Board would have sufficient time to carefully review the information in connection with its evaluation of the December 22 letter.

Our Board met again on January 21, 2005 to consider the Whitman/Appaloosa group's December 22 letter. Mr. Floyd did not receive any additional information from the Whitman/Appaloosa group prior to his departure for the meeting.

At the January 21 Board meeting, the Board adopted a policy to hold BEI's Annual Meeting of Stockholders as early as practicable in each calendar year and, in particular, to hold our 2005 Annual Meeting on April 21, 2005. In our announcement, we stated that the meeting had been moved closer to the announcement of 2004 annual results and the anticipated filing of our Form 10-K with the SEC, which is expected to be on March 15. This policy was adopted prospectively because the BEI Board believes that holding the annual meeting closer to the recently accelerated deadline for filing of our annual report with the SEC represents an important expression of good corporate governance practice in that, among other things, it is consistent with the SEC's acceleration of year-end filing of Form 10-K. In adopting this policy, the BEI Board intended that BEI hold its annual meeting as early as practicable every year, including in 2005, without regard to whether there is or would be a proxy contest in any given year. Additionally, one of the important factors that the Board took into account in adopting this policy was that holding our annual meeting in April would shorten the amount of time the members of the Whitman/Appaloosa group would have to notify us of director nominations or stockholder proposals to be presented from the floor of the meeting. Accordingly, we disclosed the new deadline in our press release announcing the date of the annual meeting. The Board did not believe that this change would preclude stockholders, including members of the Whitman/Appaloosa group, from nominating directors or notifying us of proposals to be presented from the floor of the meeting, and it did not, in fact, prevent Mr. Whitman from taking either of these actions.

When Mr. Floyd returned from the Board meeting on the afternoon of January 21, 2005, he received a second letter from Mr. Whitman dated January 19, 2005. This second letter reiterated Formation Capital's

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interest in acquiring BEI for \$11.50 per share, subject to the terms and conditions contained in Mr. Whitman's earlier letter (which included, among other things, completion of business, regulatory, legal and accounting due diligence). Mr. Whitman also indicated that, as stated in his prior letter, Formation Capital would be prepared to discuss a transaction in which the Whitman/Appaloosa group would acquire our real estate assets and nursing facilities operations, leaving BEI with its ancillary service businesses. Specifically, Mr. Whitman indicated that, subject to completion of business, regulatory, legal and accounting due diligence, the Whitman/Appaloosa group was prepared to pay \$9.00 per share in cash for our nursing operations and assume all liabilities not related to our ancillary service businesses. The January 19 letter also suggested that Formation Capital believed the company comprised of the ancillary service businesses would trade at approximately a valuation of \$4.00 per share and that the Whitman/Appaloosa group would enter into contractual agreements whereby BEI would continue to provide ancillary services

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to the acquired nursing facilities. Mr. Whitman's January 19 letter again indicated that the proposal was being provided to BEI on a confidential basis and that he expected that BEI would not disclose the proposal to anyone other than BEI's Board and advisors.

This second letter necessitated an entirely new round of review by our Board and its outside legal and financial advisors to evaluate the additional information contained in the January 19 letter regarding the alternative acquisition structure described in the letter. On January 24, 2004, Mr. Floyd sent Mr. Whitman a letter informing him that the Board would meet again to consider this second letter and that he expected to respond during the first week of February.

Both of Mr. Whitman's letters professed a desire for a friendly transaction and specifically requested that we treat their indications of interest confidentially, a request that BEI honored. However, on January 24, 2005, Mr. Whitman, Appaloosa, Formation Capital, Franklin and Northbrook NBV, LLC, among others, filed a Schedule 13D with the SEC explaining that they had acquired over 8% of our common stock and disclosing their December 22 and January 19 letters and their intent to gain control of BEI.

Importantly, their Schedule 13D filing was triggered by the Whitman/Appaloosa group's accumulation of more than 5% of our shares in the open market. In fact, based upon the buying history described in their Schedule 13D, they knew on January 14 that they would be forced to make public disclosure of their proposals no later than January 24. Mr. Whitman's January 19 letter, nonetheless continued to express a desire to keep the Whitman/Appaloosa group's indications of interest confidential.

On January 25, 2005, in light of the rapid accumulation of our shares by the Whitman/Appaloosa group, our Board adopted a Share Purchase Rights Plan to protect our stockholders from the obvious threat of additional stock accumulations.

On January 27, 2005, we received a letter from a lawyer for the Whitman/Appaloosa group indicating that they might propose a slate of directors for election at the Annual Meeting.

Our Board met again on the evening of February 2, 2005 to consider the transactions described in Mr. Whitman's January 19 letter. On February 3, 2005, Mr. Floyd faxed Mr. Whitman a letter informing him that the BEI Board had -- after consultation with its independent financial and legal advisors -- unanimously concluded that the transactions described in his December 22 and January 19 letters are not in the best interests of BEI or our stockholders.

In reaching these conclusions, the Board took into account its confidence in BEI's strategic plan and business segment growth initiatives, including continued growth of the ancillary service businesses as part of a single company with our skilled nursing business, and its belief that management will continue to deliver on its commitments to stockholders. The Board also took into account the operating and financial progress BEI has achieved in recent years, including, among other things:

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- Between December 31, 2000 and September 30, 2004, we increased cash and cash equivalents, on a consolidated basis, from approximately \$26 million to approximately \$207 million. The September 30, 2004 amount includes cash of approximately \$56 million related to our subsidiaries that are not guarantors of our 7 7/8% Senior Subordinated Notes;

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- From December 31, 2000 to September 30, 2004, we reduced our long-term debt (including current portion) from approximately \$1 billion to approximately \$570 million. These amounts include off-balance sheet obligations, if any, and obligations of our direct and indirect wholly owned subsidiaries, but do not include other current or long-term liabilities on our balance sheet; and
- From December 31, 2000 to September 30, 2004, through greater management focus on improving collections, including implementation of new systems and centralization of Medicare collections, we reduced our skilled nursing patient receivables from approximately \$495 million to approximately \$181 million. On a same facility basis (facilities operating at both December 31, 2000 and September 30, 2004), our skilled nursing receivables declined approximately 41% from \$296.8 million at December 31, 2000.

The BEI Board also took into account that, under the current management team:

- the price of BEI's common stock has more than quadrupled between January 2003 (the beginning of the first quarter following our announcement of a two-year divestiture program that was intended to, and did, result in a significant reduction in projected patient care liability costs) and January 21, 2005 (the last trading day prior to the public disclosure of the Formation Capital letters);
- EBITDA(2) from continuing operations (on a comparable basis) has more than tripled in the past four years; and
- BEI has developed innovative clinical services, including for Alzheimer's patients, and focused on delivering quality care for the elderly, which the BEI Board believes will result in competitive advantages for BEI as it continues to implement its strategic plan.

As BEI has stated on many occasions, it believes that the value of our ancillary service businesses is enhanced by being part of a single organization with our skilled nursing business and that this combination

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(2) We define EBITDA as earnings from continuing operations before interest expense (including costs related to early extinguishments of debt), interest income, income taxes, depreciation and amortization. The BEI Board looks to EBITDA in considering management's performance because EBITDA is commonly used by our lenders and investors to assess our leverage capacity, debt service ability and liquidity, and we use EBITDA to evaluate financial performance and to design incentive compensation for management. EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles ("GAAP"), and the items excluded from EBITDA are significant components in understanding and assessing our financial performance. EBITDA should not be considered as an alternative to net income, cash flows provided by or used in operating, investing or financing activities or other financial statement data presented in our consolidated financial statements as an indicator of financial performance or liquidity. Since EBITDA is not a measure determined in accordance with GAAP and is thus susceptible to varying calculations, EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements.

Because of these limitations, EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally.

reflects a core element of our strategic plan. Accordingly, the Board took into account its belief that separating those businesses would create significant risks for the standalone services company, including its reliance on the separated skilled nursing business for a substantial portion of its revenue stream, as well as requiring the ancillary service businesses to incur costs

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related to operation as a standalone public company.

Additionally, the Board took into account its serious concerns regarding the highly contingent nature of the proposals, including that:

- the Whitman/Appaloosa group did not have a commitment letter with respect to the debt financing that would be required to complete an acquisition of BEI;
- even if the Whitman/Appaloosa group were to receive a commitment letter with respect to debt financing, it would almost certainly be subject to numerous qualifications and conditions, which would likely include both customary financing conditions and conditions specifically related to the complex multi-property real estate financing the BEI Board believes would be required to finance the Whitman/ Appaloosa group's proposal for an acquisition of BEI. For example, as disclosed in Mariner Health Care, Inc. public filings, even after the acquirer of Mariner, another operator of skilled nursing facilities, conducted almost two months of due diligence (as compared with the 30 days of due diligence the Whitman/Appaloosa group indicated it required in its December 22 letter), the debt commitment letter provided to the acquirers of Mariner was conditioned upon, among other things, real estate, healthcare and legal and financial due diligence acceptable to the lender;
- exploration of even the feasibility of the financing required to complete either of the transactions would require protracted and undefined due diligence that would disrupt our operations;
- rising interest rates and attendant changes in the capital markets (including the availability and cost of leveraged financing, based on either cash flows or real estate assets) create additional uncertainty with respect to the ability to obtain the required debt financing;
- the proposed prices suggested in the two letters are subject to, among other things, the Whitman/ Appaloosa group's completion of business, regulatory, legal and accounting due diligence;
- while the letters suggest that the Whitman/Appaloosa group might raise the proposed purchase price, the terms of their letters are not binding and the group may attempt to lower their proposed purchase price; and
- the indications of interest by the Whitman/Appaloosa group were also subject to negotiation of definitive documentation as described in the December 22 letter.

The BEI Board also took into account its belief that neither of the alternative transaction structures, as presented, could be successfully financed within the terms of the indications of interest. In particular, the Board took into account Formation Capital's statement that the Whitman/Appaloosa group had only \$375 million in committed equity financing.

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Additionally, the Board took into account its concerns about the willingness of the Whitman/Appaloosa group to deal with BEI in a forthright manner after we had received two letters requesting that BEI maintain the confidentiality of the group's proposals -- particularly in light of the fact that when the group sent its second letter on January 19 they knew they would publicly disclose their proposals no later than January 24.

Finally, the Board believes that this group's two preliminary and highly conditional indications of interest significantly undervalue BEI. The Board has consulted with its financial advisors who have provided guidance and assistance to the Board in analyzing BEI's historical financial statements, its stock market prices over the past several years and other financial measures of performance, including, but not limited to, cash flows and comparisons with comparable companies. The Board has also considered BEI's own strategic plan and prospects for future growth on a standalone basis.

Mr. Whitman's nomination of an opposition slate of directors, as well as his proposal of a number of additional matters for approval by the BEI stockholders at the Annual Meeting, is designed solely to further the Whitman/Appaloosa group's attempt to take over BEI.

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Your Board has unanimously concluded that the transactions proposed by the Whitman/Appaloosa group are not in the best interests of BEI or our stockholders. Accordingly, your Board unanimously recommends you vote:

- "FOR" the BEI director nominees; and
- "AGAINST" items 3-5 on the enclosed WHITE proxy card.

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PROPOSALS ON WHICH YOU MAY VOTE

1. ELECTION OF DIRECTORS

All of the eight current directors of BEI have been nominated for re-election. Detailed information on each BEI nominee is provided beginning on page . Each director is elected annually and serves a one-year term until the next Annual Meeting or until his or her successor is elected and qualified. Except as otherwise specified on your WHITE proxy card, proxies will be voted for the election of all BEI nominees.

If for any reason any of the BEI director nominees should become unavailable for election (an event that the Board does not anticipate), the proxy will be voted for the election of such substitute nominee as may be designated by the Board.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH BEI NOMINEE AS A DIRECTOR.

2. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005

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The Audit and Compliance Committee has appointed, and the Board has ratified the appointment of, Ernst & Young LLP as our independent registered public accounting firm for 2005. Ernst & Young LLP has unrestricted access to the Audit and Compliance Committee to discuss audit findings and other financial matters. Representatives of Ernst & Young LLP will attend the Annual Meeting and will be available to answer appropriate questions. They may also make a statement if they desire to do so.

AUDIT FEES

Ernst & Young LLP fees for the 2004 annual audit and the 2003 annual audit were \$1,684,000 and \$1,292,000, respectively, including fees associated with Sarbanes-Oxley 404 attestation procedures, reviews of BEI's quarterly reports on Form 10-Q and consents on registration statements filed with the SEC in 2003 and 2004.

AUDIT-RELATED FEES

Ernst & Young LLP fees for audit-related services in 2004 and 2003 were \$1,158,000 and \$668,000, respectively. Audit-related services generally include employee benefit plan audits, statutory and affiliate audits, agreed-upon compliance attestation procedures under BEI's Corporate Integrity Agreement with the Office of Inspector General, due diligence procedures performed in connection with acquisitions or potential acquisitions, and consultations on accounting and financial reporting matters.

TAX FEES

Ernst & Young LLP fees for tax services in 2004 and 2003 were \$290,000 and \$30,000, respectively. Tax services rendered to BEI primarily include tax return compilation reviews, state tax planning assistance and consultations on tax matters.

ALL OTHER FEES

There were no other Ernst & Young LLP fees incurred in 2004 and 2003.

The Audit and Compliance Committee has determined that the provision of these services is compatible with maintaining Ernst & Young LLP's independence.

PRE-APPROVAL POLICY FOR AUDIT AND NON-AUDIT SERVICES PERFORMED BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit and Compliance Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. The Audit and Compliance Committee is provided sufficient detail regarding each service to be pre-approved to enable it to determine whether providing such service might impair the independence of the independent registered public accounting firm.

Pre-approval is provided periodically as determined necessary and any pre-approval is detailed as to the particular service or category of services and generally subject to a budget or fee range, but only for purposes of authorizing payment. Interpretations as to whether a particular service to be provided falls within the definition of a service that has already been pre-approved shall be made by the Audit and Compliance Committee or its delegate. Management and the independent registered public accounting firm are

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required to report periodically to the Audit and Compliance Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval. The Audit and Compliance Committee may also pre-approve particular services on a case-by-case basis. The Audit and Compliance Committee has delegated pre-approval authority to the Chairperson of the Committee, and the Chairperson must report, for informational purposes only, any pre-approval decisions to the Audit and Compliance Committee at its next scheduled meeting.

The Audit and Compliance Committee has the sole responsibility for selecting BEI's independent registered public accounting firm, and stockholder ratification is not required. However, the selection is being submitted for ratification by the stockholders solely for the purpose of soliciting the stockholders' opinion of the Audit and Compliance Committee's selection of the independent registered public accounting firm. While it is the Audit and Compliance Committee's present intention to take the opinion of the stockholders into consideration in its future deliberations with respect to the selection of an independent registered public accounting firm, it may decide not to do so. In any event, the Audit and Compliance Committee may engage or terminate the engagement of Ernst & Young LLP or any other accounting firm as BEI's independent registered public accounting firm as it determines is necessary or appropriate in its sole discretion, regardless of the outcome of the stockholders' vote on Item 2 or any other vote of the stockholders taken at any time or in any other manner.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF ERNST & YOUNG LLP'S APPOINTMENT AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2005.

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BEI NOMINEES FOR THE BOARD OF DIRECTORS

The following table sets forth, as of the Record Date, certain information regarding the BEI directors, each of whom has been nominated for re-election by the Nominating and Compensation Committee:

NAME OF DIRECTOR/NOMINEE -----	POSITION -----	AGE ---	DIRECTOR -----
William R. Floyd.....	Chairman of the Board, President, Chief Executive Officer and Director	60	July 2000
Melanie Creagan Dreher, Ph.D.	Director	61	August 20
John D. Fowler, Jr.	Director	47	February
John P. Howe, III, M.D.	Director	61	July 2001
James W. McLane.....	Director	66	October 2
Ivan R. Sabel.....	Director	59	March 200
Donald L. Seeley.....	Director	60	April 200
Marilyn R. Seymann, Ph.D.	Director	62	March 199

Mr. Floyd joined us in April 2000 as President and Chief Operating Officer. Mr. Floyd was appointed Chief Executive Officer in February 2001 and Chairman of the Board in December 2001. From 1996 to 1998, Mr. Floyd was Chief Executive Officer of Choice Hotels International, Inc., and from 1995 to 1996, he was Chief Operating Officer of Taco Bell Corporation.

Dr. Dreher has been the Kelting Dean and a professor at The University of

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Iowa College of Nursing since 1997. Dr. Dreher also serves as Academic Director for Clinical Practice in the Department of Nursing and Patient Services at The University of Iowa Hospital and Clinics and is a member of the board of Wellmark Health Plan of Iowa. From 2000 to 2001, Dr. Dreher was an advisory board member for the Pfizer Fellowship Program in Nursing Research.

Mr. Fowler has been the Vice Chairman of Deutsche Bank Securities, Inc. since November 2004 and a Visiting Professor at the University of South Dakota School of Business since January 2004. During 2004, Mr. Fowler was Managing Director of Baycrest Capital, LLC, a private equity investment and advisory firm, and Managing Director of Bio-Strategic Directors, LLC. From 2001 to 2003, Mr. Fowler was President and a director of Large Scale Biology Corporation. From 1998 to 2001, Mr. Fowler was a Managing Director in JPMorgan & Co.'s Healthcare Group and from 1992 to 1998, he was Managing Director and Head of Salomon Brothers Inc.'s Healthcare Group. Mr. Fowler is also a director of Project Reach Youth.

Dr. Howe, III has been the President and Chief Executive Officer of Project Hope since 2001. From 1985 to 2001, Dr. Howe, III was President of The University of Texas Health Center at San Antonio. Dr. Howe, III is also a director of Southwest Foundation for Biomedical Research and BB&T Corporation.

Mr. McLane has been a Director of Healthaxis Inc. since August 2000, its Chief Executive Officer since February 2001, and its Chairman since August 2001. From 1997 until early 2000, Mr. McLane was President, Chief Operating Officer and Director of NovaCare, Inc. Mr. McLane previously served as Executive Vice President of Aetna, Inc. and as Chief Executive Officer of Aetna Health Plans. Mr. McLane is also a director of Outward Bound USA and the Philadelphia Outward Bound Center.

Mr. Sabel has been the Chairman of the Board and Chief Executive Officer of Hanger Orthopedic Group, Inc. since August 1995. Mr. Sabel has held various positions with Hanger Orthopedic Group, Inc. since 1987, including President, Chief Operating Officer and Vice President, Corporate Development. Mr. Sabel has previously served as a director of American Orthotic and Prosthetic Association, Nursefinders, Inc. and Mid Atlantic Medical Services, Inc.

Mr. Seeley has been a Director of the Applied Investment Management Program at the University of Arizona Department of Finance since June 2000. From 1997 to 2000, Mr. Seeley was Vice Chairman and Chief Financial Officer of True North Communications. Mr. Seeley currently serves on the Board of Trustees of William Blair Funds.

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Dr. Seymann has been the President and Chief Executive Officer of M One, Inc., a management, risk and governance consulting firm for financial institutions, since January 1991. Dr. Seymann has been a director of Provide Commerce, Inc., Maximus, Inc. and Eos International, Inc. Dr. Seymann is also the founder and a director of The Arizona Foundation for Women, Inc., a not-for-profit corporation.

INDEPENDENT DIRECTORS

The Board of Directors is composed of a majority of independent directors who satisfy the independence standards set forth in the current listing standards of The New York Stock Exchange, Inc. (the "NYSE"). Each of Messrs. Fowler, McLane, Sabel and Seeley, as well as Drs. Howe, Dreher and Seymann, satisfy these independence standards.

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BOARD OF DIRECTORS -- COMMITTEES DURING 2004

The Board of Directors has the following standing committees: Audit and Compliance Committee, Nominating and Compensation Committee, Quality Committee and Finance Committee. Each of these committees is composed entirely of independent directors in accordance with current NYSE listing standards. Furthermore, each member of our Audit and Compliance Committee satisfies the requirements of Section 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the financial literacy and sophistication requirements of the NYSE for membership on the Audit and Compliance Committee. At least one member of the Audit and Compliance Committee is an audit committee financial expert (as defined by the SEC). The membership of each of these standing committees during 2004 was as follows:

NAME	BOARD	AUDIT AND COMPLIANCE	NOMINATING AND COMPENSATION	QUALITY	FINAN
William R. Floyd.....	X*				
Melanie Creagan Dreher, Ph.D.	X			X	
John D. Fowler, Jr.	X	X	X*		X
John P. Howe, III, M.D.	X		X(a)	X*	
James W. McLane.....	X	X	X		X*
Ivan R. Sabel.....	X		X	X	X
Donald L. Seeley.....	X	X, E*		X	X
Marilyn R. Seymann, Ph.D.	X	X(a)	X		
Number of Meetings in 2004.....	12(b)	9(c)	11(d)	4(e)	1(f)

-
- X Member
 - * Chairperson
 - E Audit committee financial expert
 - (a) Served on committee until May 20, 2004.
 - (b) During 2004, the Board of Directors held six meetings in person and six telephonically.
 - (c) During 2004, the Audit and Compliance Committee held six meetings in person and three telephonically.
 - (d) During 2004, the Nominating and Compensation Committee held six meetings in person and five telephonically.
 - (e) During 2004, the Quality Committee held four meetings in person.
 - (f) During 2004, the Finance Committee held one meeting telephonically.

COMMITTEE FUNCTIONS

-
- AUDIT AND COMPLIANCE:
- oversees financial reporting process
 - appoints, retains and oversees the work of independent registered public accountants
 - reviews scope and results of audit plans and accounting practices
 - oversees internal audit function
 - oversees compliance function and reporting under the Corporate Integrity Agreement

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- issues Audit and Compliance Committee Report (see p.)

NOMINATING AND COMPENSATION:

- reviews and approves corporate goals and objectives relevant to the CEO comp performance and determines and approves CEO compensation
- reviews and makes recommendations to the Board with respect to compensation senior officers
- oversees compensation and benefits programs, plans, policies and practices
- approves goals for incentive and equity-based plans and evaluates performance
- issues Nominating and Compensation Committee Report (see p.)
- identifies and recommends candidates for election to Board
- establishes procedures and criteria for nomination
- develops and oversees corporate governance guidelines
- makes recommendations to the Board regarding governance matters
- makes recommendations to the Board regarding changes to BEI's certificate of incorporation and the charters of BEI's committees
- develops and recommends to the Board policies and procedures related to corporate governance
- oversees the evaluation of the Board and management

QUALITY:

- oversees the development and monitoring of regulatory and compliance programs
- reviews the scope and results of various BEI quality reports
- reports progress to the Board

FINANCE:

- reviews issues related to BEI financial matters
 - reports and makes recommendations to the Board
-

BOARD OF DIRECTORS MEETINGS AND ATTENDANCE AT BOARD AND COMMITTEE MEETINGS AND ANNUAL MEETINGS OF STOCKHOLDERS

Each director attended at least 75% of all meetings of the Board and any committees on which the director served. Directors are encouraged to attend the Annual Meeting of stockholders of BEI. All of the nine then-sitting directors attended the 2004 Annual Meeting except Dr. Seymann.

Each of the Audit and Compliance Committee and the Nominating and Compensation Committee meet at regularly scheduled executive sessions without management. The Chairperson of each of these committees presides over these sessions. In addition, the non-management directors meet at regularly scheduled executive sessions. The presiding director at those executive sessions is selected by a majority of the non-management directors and alternates from meeting to meeting.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2004, John D. Fowler, Jr., James W. McLane, Ivan R. Sabel and Marilyn R. Seymann, Ph.D. served as members of the Nominating and Compensation Committee of the Board of Directors. John P. Howe, III, M.D., also served on the Compensation Committee until May 20, 2004. None of these persons is or has been an officer or employee of BEI or any of its subsidiaries. In addition, during 2004, none of BEI's

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executive officers served on the board of directors or compensation committee (or committee performing similar functions) of any other company that had one or more executives serving on BEI's Board of Directors or Nominating and Compensation Committee.

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BOARD OF DIRECTORS -- COMPENSATION

HOW WAS THE BOARD COMPENSATED IN 2004?

- William R. Floyd, BEI's sole employee director, received no compensation for serving on the Board, other than expense reimbursement. Mr. Floyd also receives a salary in connection with his position as BEI's Chairman of the Board, President and Chief Executive Officer.
- In 2004, non-employee directors, as a group, received \$366,605 in cash, \$256,100 credited as deferred share units, which, until May 20, 2004, included a 25% BEI match, and \$18,562 credited as deferred cash units. This compensation was paid based on the following:

CATEGORY -----	PARTICIPATION FEES (D) -----
Annual retainer fee.....	\$ 35,000
Additional annual retainer fee for Chairperson of Audit and Compliance Committee and Nominating and Compensation Committee (June-December) (a).....	\$ 15,000
Additional annual retainer fee for Chairperson of Finance Committee and Quality Committee (June-December) (a).....	\$ 10,000
Attendance at Board or Committee meetings (January-May).....	\$1,000/500 (e)
Attendance at Board meeting (June-December).....	\$1,500/750 (e)
Attendance at Committee meeting (June-December).....	\$1,250/625 (e)
Attendance at Committee meeting -- Chairperson (January-May) (b).....	\$1,000/500 (e)
 Expense reimbursement.....	 Out of pocket costs

RESTRICTED SHARES (C) -----	VALUE AT TIME OF GRANT -----
15,385 shares.....	\$120,000

- (a) The respective Chairpersons were paid a prorated amount of the annual retainer fee in 2004.
- (b) The Committee Chairperson received this amount in addition to the amount received for attendance at Committee meetings generally. This per meeting fee was replaced in June 2004 by the annual retainer fee referred to in footnote (a).
- (c) In accordance with the Non-Employee Directors' Stock Option Plan, non-employee directors receive annual restricted shares grant equal to \$120,000, as determined based on the closing share price on the date of the Board meeting held in conjunction with the Annual Meeting. Dr. Dreher received 11,688 shares, pro rated from August when she joined the Board. Directors may choose to defer the grant of all or a portion of these

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shares. Deferred restricted shares are designated as phantom stock units. Each phantom stock unit has an initial value equivalent to one share of BEI common stock and directly tracks the increase or decrease in value of BEI's common stock. Distributions will be made in shares of BEI common stock, and will start upon retirement, termination, death or disability and can be made, at the director's option, in a lump sum or over a period of two to 10 years.

- (d) In accordance with the Non-Employee Director Deferred Compensation Plan, non-employee directors are permitted to defer all or a portion of their cash compensation. Deferred compensation is designated as phantom stock units, cash units or a combination of both. Each phantom stock unit has an initial value equivalent to one share of BEI common stock and directly tracks the increase or decrease in value of BEI's common stock. Cash units accrue interest at the prime rate, as determined by a major New York bank, on the first business day of the year. All of the deferred cash in 2004 constituted interest earned on cash deferred in previous years. Distributions will be made in shares of BEI common stock, and will start upon retirement, termination, death or disability and can be made, at the director's option, in a lump sum or over a period of two to 10 years.
- (e) If two amounts are shown, the first amount represents the participation fee if the non-employee director attended the applicable meeting in the manner in which attendance was requested, while the second amount represents attendance in any other manner.

EXECUTIVE OFFICERS

The following table sets forth certain information regarding BEI's executive officers as of the Record Date:

NAME ----	POSITION -----	AGE ---
William R. Floyd.....	Chairman of the Board, President, Chief Executive Officer and Director	60
Douglas J. Babb.....	Executive Vice President and Chief Administrative and Legal Officer	52
David R. Devereaux.....	Executive Vice President and Chief Operating Officer -- Nursing Facilities	42
Jeffrey P. Freimark.....	Executive Vice President, Chief Financial and Information Officer	49
Cindy H. Susienka.....	Executive Vice President and Chief Operating Officer -- Aegis and AseraCare	45
Patrice K. Acosta.....	Senior Vice President -- Quality of Life Programs	48
Pamela H. Daniels.....	Senior Vice President, Controller and Chief Accounting Officer	41
Lawrence Deans.....	Senior Vice President -- Human Resources	53
James M. Griffith.....	Senior Vice President -- Investor Relations and Corporate Communications	62
Patricia C. Kolling.....	Senior Vice President -- Compliance	58
Andrea J. Ludington.....	Senior Vice President -- Professional Services	59
Barbara R. Paul, M.D.	Senior Vice President and Chief Medical Officer	51
Harold A. Price, Ph.D.	Senior Vice President -- Sales and Business	55

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	Development	
Chris W. Roussos.....	President -- AseraCare	40
Martha J. Schram.....	President -- Aegis Therapies	53
Richard D. Skelly, Jr.	Senior Vice President and Treasurer	45
Jane A. Washburn.....	Senior Vice President and Chief Marketing Officer	50

The executive officers named above were appointed by the Board of Directors to serve in such capacities until their respective successors have been duly appointed and qualified, or until their earlier death, resignation or removal from office. Biographical information for Mr. Floyd is set forth under "BEI Nominees for the Board of Directors."

Mr. Babb joined BEI in April 2000 as Executive Vice President, General Counsel and Secretary. Mr. Babb was appointed head of Government Relations in January 2001 and Chief Administrative and Legal Officer in October 2002. Mr. Babb was Senior Vice President -- Merchandise Business Unit for Burlington Northern Santa Fe Corporation from 1997 to 1999.

Mr. Devereaux joined BEI in August 1998 as Senior Vice President -- Operations for the Specialty Services Division of the Nursing Facilities segment. Mr. Devereaux was appointed President of the companies within the Nursing Facilities segment in January 2001 and Executive Vice President and Chief Operating Officer in July 2001.

Mr. Freimark joined BEI in January 2002 as Executive Vice President and Chief Financial Officer. Mr. Freimark was appointed head of Information Technology in October 2002. From May 2001 to January 4, 2002, Mr. Freimark was Senior Executive Vice President and Chief Financial Officer of OfficeMax, Inc. From March 1997 to May 2001, Mr. Freimark was with The Grand Union Company where he held positions as Executive Vice President, Chief Financial Officer and President and Chief Executive Officer.

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Ms. Susienka joined BEI in June 1998 as President -- Aegis Therapies and was appointed President -- Home Care Services in March 2002. Ms. Susienka was appointed Executive Vice President in December 2003, Group President for Therapy, Homecare and Hospice Services in August 2004 and Chief Operating Officer -- Aegis and AseraCare in December 2004. Ms. Susienka serves on the board of directors for the National Association for the Support of Long Term Care.

Ms. Acosta joined BEI in October 1996 as Vice President -- Risk Management. Ms. Acosta was appointed Senior Vice President -- Professional Services in January 2001 and Senior Vice President -- Quality of Life Programs in October 2003. Ms. Acosta also serves as on the board of directors of the Arkansas/Oklahoma Alzheimer's Association and as a member of the Arkansas Medical School Community Advisory Board.

Ms. Daniels joined BEI in May 1988 as Audit Coordinator. Ms. Daniels was appointed Vice President, Controller and Chief Accounting Officer in October 1996 and Senior Vice President in December 1999.

Mr. Deans joined BEI in November 2003 as Senior Vice President -- Human Resources. From September 1999 to November 2003, Mr. Deans was Chief Human Resources Officer at Jones Lang LaSalle. From February 1998 to June 1999, Mr. Deans was Vice President -- Human Resources of Alliant Foodservice, Inc.

Mr. Griffith joined BEI in November 1995 as Senior Vice

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President -- Investor Relations and Corporate Communications.

Ms. Kolling joined BEI in February 1989 as a rehabilitation consultant. Ms. Kolling was appointed Vice President -- Rehabilitation in 1994, Vice President -- PPS in 1998 and Vice President -- Medicare Programs in 2000. Ms. Kolling was appointed Senior Vice President -- Compliance in October 2002.

Ms. Ludington joined BEI in 1999 as Regional Director of Professional Services. Ms. Ludington was appointed Senior Vice President -- Professional Services in May 2004.

Dr. Paul joined BEI in March 2004 as Senior Vice President and Chief Medical Officer. From 1999 to 2004, Dr. Paul served as director of the Quality Measurement and Health Assessment Group for the Centers for Medicaid & Medicare Services at the Department of Health and Human Services.

Dr. Price joined BEI in August 2002 as Senior Vice President -- Sales and Business Development. Prior to that, Dr. Price worked with BEI on a consulting basis for 18 months. Before becoming a consultant, from 1999 to 2000, Dr. Price was Vice President -- Strategic Relations and Business Development for SelfCare, Inc.

Mr. Roussos joined BEI in August 2001 as a management designee of our former Matrix segment. Mr. Roussos was appointed President of Matrix in February 2002, President of Ceres Purchasing Solutions in October 2002 and President of AseraCare in July 2004. From 2000 to 2001, Mr. Roussos was Division General Manager of American Homestar Corporation, and from 1996 to 2000, Mr. Roussos was General Manager of Fleetwood Enterprises, Inc.

Ms. Schram joined BEI in December 1998 as Group Vice President. Ms. Schram was appointed Vice President -- Northeast Division of AEGIS Therapies in March 2001 and President of Aegis Therapies in July 2004. From 1993 to 1998, Ms. Schram was an Area Vice President for NovaCare and from 1988 to 1993, Ms. Schram was Executive Director of Rehabilitation Services for Divine Savior Hospital in Portage, WI.

Mr. Skelly joined BEI in April 2002 as Senior Vice President and Treasurer. From September 2001 to March 2002, Mr. Skelly was Senior Vice President and Treasurer of OfficeMax, Inc. From June 1997 to August 2001, Mr. Skelly held various positions with The Grand Union Company, including Acting Chief Financial Officer and Treasurer.

Ms. Washburn joined BEI in her position as Senior Vice President and Chief Marketing Officer in January 2005. From 2001 until January 2005, Ms. Washburn served as President of Brand-Built International, a consulting firm specializing in business development and brand positioning. From 1997 until 2001, Ms. Washburn was Managing Director and Chief Marketing Officer of Broadview International, a global investment bank and venture capital firm. She also has held senior-level marketing positions at Price Waterhouse and Citibank, N.A.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of the Record Date, the amount of BEI common stock beneficially owned by each stockholder known by BEI to beneficially own more than five percent of the common stock of BEI.

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NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT OF COMMON STOCK
Appaloosa Investment Limited Partnership I, et al. (1) (2)..... c/o Appaloosa Partners, Inc. 26 Main Street, 1st Floor Chatham, NJ 07928	8,737,000	8.10%
Strong Capital Management, Inc. (3)..... 100 Heritage Reserve Menomonee Falls, WI 53051	6,253,247	5.80%
Barclays Global Investors(4)..... 45 Fremont Street San Francisco, CA 94105	5,402,927	5.03%

(1) Group consisting of Appaloosa Investment Limited Partnership I, Palomino Fund Ltd., Appaloosa Management L.P., Appaloosa Partners Inc., David A. Tepper, Franklin Mutual Advisers, LLC, Northbrook NBV, LLC, David Hokin, Rob Rubin, Robert Hartman, 1995 David Reis Family Trust, 1995 Donna Reis Family Trust, Aaron Reis Spray Trust, Anna Reis Spray Trust, Alexander Reis Spray Trust, David Reis Family Trust, David Reis, Baylor Enterprises LLC and Arnold M. Whitman.

(2) Based on information contained in a Schedule 13D/A filed by the Whitman/Appaloosa group with the SEC on February 22, 2005.

(3) Based on a Schedule 13G/A filed by Strong Capital Management, Inc. with the SEC on February 11, 2005.

(4) Based on a Schedule 13G filed by Barclays Global Investors, N.A. with the SEC on February 17, 2004.

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DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth, as of the Record Date, the amount of BEI common stock beneficially owned by each director, each executive officer named in the Summary Compensation Table on page (each, a "named executive officer") and all directors and executive officers as a group.

NAME AND ADDRESS (1)	SOLE VOTING AND INVESTMENT POWER (2)	OPTIONS EXERCISABLE WITHIN 60 DAYS (3)	OTHER BENEFICIAL OWNERSHIP (4)	DEFERRED COMPENSATION (5)	
William R. Floyd.....	660,880	1,350,000	--	--	2
David R. Devereaux(6).....	119,722 (7)	242,830	--	--	
Douglas J. Babb.....	182,901	359,900	--	--	

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Jeffrey P. Freimark.....	166,106	262,500	6,450	--
Cindy H. Susienka.....	118,777(7)	212,925	--	--
John D. Fowler, Jr.	5,000	25,667	--	67,010
Marilyn R. Seymann, Ph.D.	16,385	56,625	--	21,933
John P. Howe, III, M.D.	--	32,083	--	43,269
James W. McLane.....	15,385	34,968	--	21,597
Donald L. Seeley.....	38,385	23,833	--	--
Ivan R. Sabel.....	--	2,750	--	23,925
Melanie Creagan Dreher, Ph.D.	--	--	--	12,662
All directors and executive officers as a group (24 persons).....	2,038,349(7)	3,195,381	6,700	190,396

* Percentage of BEI common stock owned does not exceed 1%.

- (1) The address of each person is One Thousand Beverly Way, Fort Smith, Arkansas 72919.
- (2) Includes shares of restricted stock in the following amounts: William R. Floyd (467,322); David R. Devereaux (69,189); Douglas J. Babb (135,171); Jeffrey P. Freimark (138,376); Cindy H. Susienka (89,358); Marilyn R. Seymann, Ph.D. (15,385); James W. McLane (15,385); Donald L. Seeley (15,385) and all directors and executive officers as a group 1,354,734. Does not include phantom stock units issued under the Non-Employee Director Deferred Compensation Plan, all of which will be distributed as shares of BEI common stock upon the applicable distribution dates (converted on a one-for-one basis), in the following amounts: Melanie Creagan Dreher, Ph.D. 12,662; John D. Fowler, Jr. (67,010); John P. Howe, III, M.D. 43,269; James W. McLane (21,597); Ivan R. Sabel 23,925; and Marilyn R. Seymann, Ph.D. (21,933). Also does not include cash units issued under the Non-Employee Director Deferred Compensation Plan, all of which will be distributed as shares of BEI common stock on the applicable distribution dates.
- (3) Total options held (including options exercisable within 60 days) are as follows: William R. Floyd (1,500,000); David R. Devereaux (278,456); Douglas J. Babb (422,400); Jeffrey P. Freimark (300,000); Cindy H. Susienka (238,700); John D. Fowler, Jr. (25,667); Marilyn R. Seymann, Ph.D. (56,625); John P. Howe, III, M.D. (32,083); James W. McLane (34,968); Donald L. Seeley (23,833); Ivan R. Sabel (2,750) and all directors and executive officers as a group (3,645,157).
- (4) Represents shares owned by family members.
- (5) Represents total shares of BEI common stock reserved for distribution under the Non-Employee Director Deferred Compensation Plan.
- (6) This table does not include 119,722 shares, and options exercisable for an additional 131,419 shares, transferred by Mr. Devereaux in early February 2005 pursuant to a domestic relations order.
- (7) Includes shares purchased under the Employee Stock Purchase Plan in the following amounts: David R. Devereaux (823); Cindy H. Susienka (685) and all directors and officers as a group 12,569.

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This Audit and Compliance Committee Report is a preliminary draft of the report to be set forth in the definitive proxy statement of BEI. In addition, this Audit and Compliance Committee Report is not deemed to be "soliciting material" or "filed" with the SEC, is not subject to the liabilities of Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any of the filings previously made or made in the future by BEI under the Exchange Act or the Securities Act of 1933, as amended (the "Securities Act") (except to the extent BEI specifically incorporates this information into a document that is filed).

The Audit and Compliance Committee was established in accordance with Section 3(a)(58) of the Exchange Act. The Audit and Compliance Committee currently consists of four independent non-employee directors who satisfy the requirements of Section 10A-3 of the Exchange Act and the current listing standards of the NYSE. On February 11, 2004, the Board adopted a restated written charter for the Audit and Compliance Committee, a copy of which can be found on BEI's website at <http://www.beverlycorp.com>.

The Audit and Compliance Committee oversees BEI's financial reporting process on behalf of the Board. In fulfilling its oversight responsibilities, the Audit and Compliance Committee selects, appoints, retains and oversees BEI's independent registered public accounting firm and reviews and discusses the audited financial statements included in BEI's Annual Report on Form 10-K with management, including the reasonableness of significant judgments and the clarity of disclosures in the financial statements. Management has primary responsibility for the financial statements and reporting process, including internal control over financial reporting.

BEI's independent registered public accounting firm is responsible for performing an audit of BEI's financial statements and expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. The Audit and Compliance Committee's responsibility is to monitor and review the processes. It is not the Audit and Compliance Committee's duty nor its responsibility to conduct auditing or accounting reviews or procedures. In this context, the Audit and Compliance Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2004 with management and the independent registered public accounting firm. The Audit and Compliance Committee has discussed with the independent registered public accounting firm their judgments as to BEI's accounting principles, including the acceptability and quality of those principles, and such other matters as are required to be discussed under generally accepted accounting standards Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statement on Auditing Standards No. 90 (Audit Committee Communications) and Statement on Auditing Standards No. 89 (Audit Adjustments), each as currently in effect. In addition, it has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board No. 1 (Independence Discussions with Audit Committees), as currently in effect, and discussed their independence from BEI and its management and considered whether the independent registered public accounting firm's provision of non-audit services to BEI is compatible with the registered public accounting firm's independence.

The Audit and Compliance Committee discussed with the independent registered public accounting firm the overall scope of their respective audits. The Audit and Compliance Committee meets with the independent registered public accounting firm, without management present, to discuss the results of their examinations, their evaluations of BEI's internal control over financial reporting and the overall quality of BEI's financial reporting. In the performance of their oversight function, the members of the Audit and Compliance Committee necessarily relied upon the information, opinions, reports and statements presented to them by management and by the independent registered

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public accounting firm. The Audit and Compliance Committee held nine meetings during 2004.

In reliance on the reviews and discussions referred to above, the Audit and Compliance Committee recommended to the Board, and the Board has approved, that the audited financial statements as of and for the year ended December 31, 2004 be included in BEI's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC.

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The Audit and Compliance Committee also oversees BEI's compliance and reporting to the Office of Inspector General of the Department of Health and Human Services ("OIG") under the Corporate Integrity Agreement entered into by BEI and the OIG in February 2000.

AUDIT AND COMPLIANCE COMMITTEE

Donald L. Seeley, Chairperson
James W. McLane
John D. Fowler, Jr.
Marilyn R. Seymann, Ph.D.

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NOMINATING AND COMPENSATION COMMITTEE REPORT ON 2004 EXECUTIVE COMPENSATION

This Nominating and Compensation Committee Report is not deemed to be "soliciting material" or "filed" with the SEC, is not subject to the liabilities of Section 18 of the Exchange Act, and shall not be deemed incorporated by reference into any of the filings previously made or made in the future by BEI under the Exchange Act or the Securities Act (except to the extent BEI specifically incorporates this information into a document that is filed).

The Nominating and Compensation Committee of the Board currently consists of four independent non-employee directors who satisfy the current independence standards of the NYSE. Our objective is to develop executive compensation policies that are directly aligned with BEI's strategic goals and tie pay to performance and to stockholder value creation. We are responsible for reviewing, recommending and approving corporate goals and objectives relevant to the Chief Executive Officer's and other senior executive officers' compensation, and determining and approving the CEO's compensation. We also approve the design of BEI's broad-based compensation programs, evaluate their effectiveness and authorize new plans and strategies, as appropriate.

COMPENSATION PRACTICES

To accomplish these objectives, on October 10, 2001, we adopted the following compensation philosophy, which we believe continues to be appropriate:

- quality of care will always be a key criteria in the formulation of incentive compensation;
- competitive market for executive talent is national and multi-industry in scope;
- pay should position salary around competitive market median and target incentive pay around the 75(th) percentile, with opportunity to exceed

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- this level with strong performance;
- pay should consist of cash and stock-based vehicles;
- pay is tied to performance;
- pay should reflect significant upside for exceeding goals; and
- individual contributions should be recognized.

We rely on information from a number of sources to assist us in implementing this philosophy. We work with an executive compensation consulting firm selected by us that provides guidance on industry practices and assists in valuing various forms of compensation. We evaluate competitive compensation practices and amounts by considering data assembled by the compensation consultant. The information provided to us for this purpose looks at companies in the service industry and the healthcare services industry with comparable revenues, number of employees and market capitalization. Finally, we receive input from BEI's CEO regarding the elements of compensation and the overall compensation he recommends for other executive officers.

Executive compensation at BEI consists of four primary elements: base salary, annual incentive compensation potential, long-term compensation in the form of stock-based vehicles and retirement benefits. The type and amounts of compensation, the scope and terms of the compensation plans and the retirement benefits are the result of a substantial evaluation and analysis by the Committee. The consulting firm retained by the Committee provided an analysis of BEI's compensation structure in comparison to that of competitive companies. The Committee utilized that analysis in conjunction with its compensation philosophy to develop BEI's current compensation structure.

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BASE SALARY

We regularly review the base salary of BEI's corporate officers. In addition to considering the median salaries for comparable positions at the other companies reflected in competitive market information, we also consider the level and scope of responsibility, experience and performance of individual officers, as well as relative salary levels among BEI officers. However, we do not assign a specific weight to each of these factors.

ANNUAL INCENTIVE COMPENSATION

On February 2, 2005, we evaluated performance-based compensation available under the Beverly Enterprises, Inc. Annual Incentive Plan, dated effective January 1, 1998, for corporate and subsidiary management. The financial performance measurement used was earnings before interest, taxes, depreciation and amortization ("EBITDA"), excluding the effect of certain actions taken during 2004.

Each executive officer participating in the Annual Incentive Plan, including those listed in the Summary Compensation Table, has a target and maximum annual incentive opportunity expressed as a percentage of annual base salary. Target opportunities for executive officers for 2004 ranged from 45% to 125% of annual base salary, which amount is weighted based upon the performance of BEI in excess of the target opportunity thresholds. Except for the executive officers listed below in the Summary Compensation Table, the target opportunities for participants may be increased or decreased by the Committee based upon the business and financial performance of BEI. Subsidiary management incentive plan distributions were reviewed and adjusted if applicable due to

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revisions to final business unit scorecard results.

LONG-TERM INCENTIVE COMPENSATION

We strongly believe that stock-based compensation creates a direct link between the long-term financial interests of BEI's executives and BEI's stockholders. Prior to last year, we granted stock options to eligible employees. We have changed our view on this approach in favor of grants of restricted stock to eligible employees. Last year we evaluated BEI's ability to provide performance-based compensation under the 1997 Plan. We decided to implement a 2004 long-term incentive program under the 1997 Plan, pursuant to which BEI grants restricted stock to employees selected by the Committee that vest at the end of three years from the date of grant. In addition, BEI grants performance units and/or performance-based cash bonuses to employees selected by the Committee that vest at the end of three years to the extent certain EBITDA, EBITDA margin and share appreciation goals are obtained.

In determining the size and other terms of stock grants, we review information on competitive practices and valuations provided by our compensation consultants. Generally, performance-based stock awards are made during the first half of a year.

In 2004, BEI granted 558,602 shares of restricted stock to the executive officers as a group, and 396,368 shares of restricted stock to BEI's other employees as a group. Further details about restricted stock awards granted to the named executive officers during 2004 are shown on the Executive Summary Compensation Table below.

RESPONSE TO TAX LAWS LIMITING DEDUCTIONS FOR COMPENSATION

Section 162(m) of the Internal Revenue Code generally sets a \$1,000,000 per person limit on a company's ability to deduct compensation paid to its five most highly paid executive officers. Section 162(m) provides an exemption to this limit for compensation that qualifies under the Code as "performance-based compensation." The Nominating and Compensation Committee has determined that it generally should seek to retain full tax deductibility for our incentive compensation programs. Therefore, we have designed BEI's annual and long-term compensation programs so that compensation earned under those plans can meet the definition of "performance-based compensation." However, in order to maintain flexibility in motivating and compensating BEI's executive officers, in some circumstances it may provide for or pay compensation that may not satisfy 162(m) and, therefore, may not be deductible, in whole or in part, by BEI.

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RETIREMENT BENEFITS

SERP. In addition to maintaining standard broad-based employee retirement benefit plans, we adopted a supplemental executive retirement plan (the "SERP") on February 19, 1998. Participants were selected based on management's recommendations. The SERP was amended and restated, effective as of April 1, 2000. Generally, this program provides for an annual retirement income benefit equal to the product of (a) 3.33%, multiplied by (b) the participant's final average base compensation and (c) the participant's years (including partial years) of credited service. The benefit is payable for a maximum of fifteen years upon retirement at age 65 with 15 years of service after age 50. For purposes of calculating participants' retirement benefits, only their base annual salary up to \$1,000,000 per year is taken into account; incentive compensation, bonuses and base annual salary in excess of \$1,000,000 are disregarded. Benefits are reduced for retirement before age 65 or for less than 15 years of service. Participants may elect to receive their benefits in the

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form of a single lump sum payment.

The SERP was modified in December 2001 with respect to Mr. Floyd to provide him an enhanced retirement benefit equal to 50% of his final average compensation regardless of his years of service. For purposes of calculating Mr. Floyd's final average compensation, only his base annual salary up to \$1,000,000 per year is taken into account; incentive compensation, bonuses and base annual salary in excess of \$1,000,000 are disregarded. Mr. Floyd's benefit is now fully vested. In addition, the 5% discount per year for retirement prior to age 65 was waived for Mr. Floyd, and his benefits could be paid over 15 years regardless of how many years of service he has at retirement. (See "Executive Compensation -- Defined Benefit Plan").

As discussed further under "Retirement Benefits -- Executive Deferred Compensation Plan" below, the SERP was frozen for participants under age 56 and closed to new participants effective as of January 1, 2003.

Enhanced Supplemental Executive Retirement Plan. Effective as of January 1, 2004, we adopted the Enhanced Supplemental Executive Retirement Plan ("Enhanced SERP") for a designated group of BEI's senior executive employees. The Nominating and Compensation Committee is responsible for selecting the participants for the Enhanced SERP. The Enhanced SERP is a nonqualified, unsecured deferred compensation plan, informally funded through a so-called "rabbi trust." Each year BEI, in its discretion, may make a contribution on each participant's behalf equal to a percentage of his or her salary and incentive compensation for the year. Prior to any change in control, we will set the contribution percentage each year for each participant in our sole discretion. Following any change in control, contributions will equal at least the amount made on each participant's behalf immediately prior to the change in control. If a participant dies, becomes disabled or is terminated without cause within two years following a change in control, contributions will continue to be made on the participant's behalf based on the participant's compensation and the Enhanced SERP contributions that were made immediately prior to the participant's death, disability or termination. Such contributions will continue until the earlier of the time the participant attains (or would have attained) age 60 or would have completed ten years of plan participation. If a participant is involuntarily terminated without cause prior to a change in control and prior to the time the participant attains age 60 or completes 10 years of plan participation, BEI, in its sole discretion, may continue making contributions on the terminated participant's behalf up to the amount and for the period of time that contributions would have been made had the participant died or become disabled.

BEI's contributions will be credited with deemed investment earnings or losses based on a participant's investment elections from the investment funds offered under the Enhanced SERP. In addition, if BEI does not credit contributions to a participant's account by December 31 of the year for which the contributions are to be made, interest will accrue at the rate of 6.5% per annum on the delinquent contributions until they are made to the plan. A deferred credit contribution must be made by December 31 of the following year. Participants will vest in their Enhanced SERP benefits upon the earlier of attaining age 60, completing 10 years of plan participation, death, total and permanent disability, a change in control or involuntary termination of employment without cause. Distributions of participants' benefits will be made once they attain age 60 or complete ten years of plan participation (whichever is earlier), and terminate employment. Distributions will be made in cash in either a single lump sum or annual installment payments over a five, ten or fifteen year period as elected by the participant. However, distributions due to death, disability or

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termination of employment without cause within two years of a change in control will be made only in a lump sum and only after the participant would have attained age 60 or completed ten years of plan participation but for such death, disability or termination following a change in control.

Executive Deferred Compensation Plan. Effective as of December 31, 2002, the Board adopted an Executive Deferred Compensation Plan (the "EDC Plan") for a designated group of management or highly compensated employees. Certain employees with base annual salary of at least \$90,000 and total annual compensation (salary plus target bonus) of at least \$100,000 are eligible for selection by the Nominating and Compensation Committee for participation in the EDC Plan. The EDC Plan is a nonqualified, unsecured deferred compensation plan, informally funded through a so-called "rabbi trust." Eligible employees can elect to defer up to 75% of their base salary and 100% of their bonus or incentive compensation each year. In addition, BEI may make matching contributions to make up for matching contributions to the tax-qualified SavingsPlus Plan that participants were ineligible for due to various legal limits and/or their participation in the EDC Plan. Additional discretionary contributions are also possible. In addition, due to the freezing of the SERP for participants under age 56 (as well as for any new participants), in January 2003 BEI made an initial contribution to the EDC Plan for two affected participants with vested SERP benefits, and will make ongoing, future age-weighted EDC Plan contributions for other former SERP participants, in exchange for such participants waiving their rights under the SERP. Earnings and losses on all participant and BEI contributions will be credited with deemed investment earnings based on participant investment elections from among 20 variable investment fund options currently offered under the EDC Plan.

Participants are always vested in their own compensation deferrals. BEI contributions generally vest after five years of combined EDC Plan and SERP participation. Vesting is accelerated upon a change in control of BEI. Participants can elect in-service withdrawals at a specified future date, in either a single lump-sum or, for withdrawals of \$25,000 or more, in annual installments over two to five years. Non-scheduled withdrawals can also be made, but the participant will forfeit 10% of the requested withdrawal and be suspended from the EDC Plan for the remainder of the then current year and the next following year. These penalties will not apply if the withdrawal is on account of a severe financial hardship. Upon termination of employment, participants can elect to receive either a lump sum payout or, if they have a least five years of combined EDC Plan and SERP service and a distribution of at least \$25,000, annual installments for up to 15 years. All distributions will be in cash.

Retention Enhancement Program. In March 2004, BEI established the Retention Enhancement Program ("REP"), as part of the EDC Plan, to provide enhanced retirement, death and disability benefits to Mr. Floyd to supplement his SERP benefits, which are described above, and to provide an additional incentive for him to remain with BEI until he attains age 65. Pursuant to the REP, BEI will make contributions each year to an account established for Mr. Floyd under the EDC Plan. The Nominating and Compensation Committee will determine the amount of those contributions each year, but it is currently intended that when the total contributions and earnings on the contributions are added to Mr. Floyd's SERP benefits, this will provide him with a combined retirement benefit equal to 40% of his total final compensation (which includes base salary and bonuses and is not capped at \$1,000,000 like his SERP benefits). Like the EDC Plan, earnings and losses will be credited to the REP contributions made on Mr. Floyd's behalf based on his investment elections from the funds offered under the EDC Plan. Mr. Floyd will vest in his REP benefits when the first of the following events occurs: (i) he attains age 65, provided that he is still employed by BEI; (ii) he dies or becomes disabled; or (iii) BEI undergoes a change in control. If Mr. Floyd is terminated without cause prior to the date

he otherwise fully vests in his REP benefi