FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1996-08-26**
SEC Accession No. 0001005150-96-000309

FILER

INTEGRATED LIVING COMMUNITIES INC
CIK:**1016202**
Type: **S-1/A** | Act: **33** | File No.: **333-05877** | Film No.: **96620235**
SIC: **8051** Skilled nursing care facilities

Mailing Address
10065 RED RUN BLVD
OWINGS MILLS MD 21117

Business Address
10065 RED RUN BLVD
OWINGS MILLS MD 21117
4109988844

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 26, 1996
REGISTRATION NO. 333-05877

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO
FORM S-1

REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

INTEGRATED LIVING COMMUNITIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>
<CAPTION>

<S>	<C>	<C>
Delaware	8059	52-1967027
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

</TABLE>

Bernwood Centre, 24850 Old 41 Road, Suite 10, Bonita Springs, Florida 34135
(941) 974-7200

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

EDWARD J. KOMP

Bernwood Centre
24850 Old 41 Road, Suite 10
Bonita Springs, Florida 34135
Tel.: 941-974-7200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

<TABLE>
<CAPTION>

<S>	<C>	<C>
CARL E. KAPLAN, ESQ. Fulbright & Jaworski L.L.P. 666 Fifth Avenue New York, New York 10103 Tel.: 212-318-3000	MARSHALL A. ELKINS, ESQ. Integrated Health Services, Inc. 10065 Red Run Boulevard Owings Mills, Maryland 21117 Tel.: 410-998-8400	FREDERICK W. KANNER, ESQ. Dewey Ballantine 1301 Avenue of the Americas New York, New York 10019-6092 Tel.: 212-259-8000

</TABLE>

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same

offering. [ ] _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall thereafter become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

INTEGRATED LIVING COMMUNITIES, INC.

CROSS-REFERENCE SHEET

<TABLE>
<CAPTION>

FORM S-1 ITEM AND CAPTION		PROSPECTUS CAPTIONS
1.	Forepart of the Registration Statement and Outside Front Cover Page of Prospectus.....	Outside Front Cover Page of Prospectus
2.	Inside Front and Outside Back Cover Pages of Prospectus.....	Inside Front Cover Page and Outside Back Cover Page of Prospectus; Additional Information
3.	Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges.....	Prospectus Summary; Risk Factors (Ratio of Earnings to Fixed Charges Not Applicable)
4.	Use of Proceeds.....	Use of Proceeds
5.	Determination of Offering Price.....	Outside Front Cover Page of Prospectus; Risk Factors; Underwriting
6.	Dilution.....	Risk Factors; Dilution
7.	Selling Security Holders.....	Principal and Selling Stockholders
8.	Plan of Distribution.....	Outside and Inside Front Cover Pages of Prospectus; Underwriting
9.	Description of Securities to be Registered.....	Outside of Front Cover Page of Prospectus; Description of Capital Stock; Underwriting
10.	Interests of Named Experts and Counsel.....	Not Applicable
11.	Information With Respect to the Registrant:	
	(a) Description of Business.....	Prospectus Summary; Company History; Management's Discussion and Analysis of Financial Condition and Results of Operations; Business
	(b) Description of Property.....	Business-Properties
	(c) Legal Proceedings.....	Business-Legal Proceedings
	(d) Market Price and Dividends on Registrant's Common Equity and Related Stockholder Matters.....	Description of Capital Stock; Dividend Policy
	(e) Financial Statements.....	Financial Statements; Pro Forma Financial Information
	(f) Selected Financial Information.....	Prospectus Summary; Selected Consolidated Financial Data
	(g) Supplementary Financial Information.....	Not Applicable

FORM S-1 ITEM AND CAPTION	PROSPECTUS CAPTIONS

(h)	Management's Discussion and Analysis of Financial Condition and Results of Operations.	Management's Discussion and Analysis of Financial Condition and Results of Operations
(i)	Changes in and Disagreements With Accountants on Accounting and Financial Disclosures.....	Not Applicable
(j)	Directors and Executive Officers.....	Management
(k)	Executive Compensation.....	Management-Executive Compensation
(l)	Security Ownership of Certain Beneficial Owners and Management.....	Principal and Selling Stockholders
(m)	Certain Relationships and Related Transactions.....	Prospectus Summary; Company History; Management -- Compensation Committee Interlocks and Insider Participation; Certain Transactions
12.	Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	Not Applicable

</TABLE>

SUBJECT TO COMPLETION, DATED AUGUST 26, 1996

PROSPECTUS

5,130,600 SHARES

[LOGO]

COMMON STOCK

Of the 5,130,600 shares of Common Stock offered hereby, 2,435,700 shares are being sold by Integrated Living Communities, Inc. ("ILC" or the "Company") and 2,694,900 shares are being sold by Integrated Health Services, Inc. ("IHS"), the sole stockholder of the Company prior to this offering. Upon completion of this offering, IHS and its directors and executive officers will continue to beneficially own approximately 23.0% of the Company's outstanding Common Stock (approximately 20.7% if the Underwriters exercise their over-allotment option in full). The Company will not receive any proceeds from the sale of shares by IHS.

Prior to this offering there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between $13.00 and $15.00 per share. See "Underwriting" for information related to the factors to be considered in determining the initial public offering price. The Common Stock has been approved for quotation on The Nasdaq Stock Market's National Market under the symbol "ILCC."

See "Risk Factors" beginning on page 6 for a discussion of certain factors that should be considered by prospective purchasers of the Common Stock offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THE OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

	Price to Public	Underwriting Discounts(1)	Proceeds to Company(2)	Proceeds to IHS
Per Share	$	$	$	$
Total (3)	$	$	$	$

(1) The Company and IHS have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) Before deducting estimated expenses of $ payable by the Company.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to 769,590 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are being offered by the several Underwriters named herein, subject to prior sale, when, as and if accepted by them, and subject to certain conditions. It is expected that certificates for the shares of the Common Stock offered hereby will be available for delivery on or about _____ , 1996 at the offices of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

SMITH BARNEY INC.

ALEX. BROWN & SONS
INCORPORATED

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

, 1996

The Company intends to furnish its stockholders with annual reports containing financial statements audited by its independent public accountants and quarterly reports containing unaudited financial information for each of the first three quarters of each fiscal year.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ STOCK MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Prospective investors should carefully consider the information set forth under "Risk Factors."

THE COMPANY

The Company provides assisted living and related services to the private pay elderly market. Assisted living facilities combine housing, personalized support and healthcare services in a cost-effective, non-institutional setting designed to address the individual needs of the elderly who need regular assistance with activities of daily living, such as eating, bathing, dressing and personal hygiene, but who do not require the level of healthcare provided in a skilled nursing facility. The Company currently operates 19 assisted living and other senior housing facilities containing 1,812 units in seven states. The 1,812 units operated by the Company consist of 1,187 assisted living units (including 172 units devoted to Alzheimer's and dementia care), 544 independent living units for persons who require occasional assistance with the activities of daily living, and 81 skilled nursing units. The Company is pursuing a strategy of rapid growth through development and acquisition and intends to acquire, develop or obtain agreements to manage approximately 60 to 75 assisted living facilities per year in each of the next three years. As part of this strategy, ILC is currently developing 33 new assisted living facilities, of which 24 are scheduled to open during 1997, has entered into an agreement to acquire one facility containing 258 units simultaneous with the closing of this offering and is evaluating numerous additional acquisition opportunities. All of ILC's revenues from its owned and leased facilities for 1995 and the first six months of 1996 were derived from private-pay sources.

The Company's objective is to expand its operations to become a leading

provider of high-quality, affordable assisted living services. Key elements of the Company's strategy to achieve this goal are to: (i) provide high-quality healthcare-oriented services; (ii) grow rapidly through development and acquisition of assisted living facilities; (iii) utilize a flexible, cost-effective approach for the development of new assisted living facilities; and (iv) target a broad segment of the private-pay population.

The assisted living industry is highly fragmented and characterized by numerous small operators whose scope of services vary widely. Annual expenditures for assisted living services were estimated to be $10 to 12 billion in 1995. The Company believes that factors contributing to the growth of the assisted living industry include: (i) the aging of the U.S. population; (ii) the increasing affluence of the elderly and their families; (iii) the decreasing availability of family care in the home; (iv) consumer preference for greater independence and a less institutional setting; (v) the increasing emphasis by both federal and state governments and private insurers on containing long-term care costs; and (vi) the reduced availability of skilled nursing beds for less medically intensive residents. The Company believes that the foregoing factors, combined with the fragmented nature of the industry and the inexperience and lack of resources of many operators, have created a significant opportunity for ILC to become a leading provider of high-quality, affordable assisted living services.

The Company believes that its approach to the development of new assisted living facilities differs from that of many other operators. Unlike many assisted living operators, the Company intends to rely primarily on a limited number of third-party developers, rather than maintain a large internal development staff. ILC currently has relationships with three developers, which developers are responsible for 29 of the 33 facilities currently under development by the Company. The Company has, together with these developers, developed three flexible and expandable prototype building designs. The flexibility feature is expected to allow the facility's assisted living and Alzheimer's bed allotment to be quickly and cost-effectively reconfigured based on changing market demand. The expandability feature is expected to allow the prototype buildings to be easily and cost-effectively expanded with little or no disruption to current operations. The Company believes its development approach will offer many advantages, including better construction quality control, lower architectural and engineering fees, bulk purchasing of materials and fixtures, and faster development and construction schedules.

THE OFFERING

Common Stock being offered by:	
The Company	2,435,700 shares
IHS	2,694,900 shares
Common Stock to be outstanding after the offering	6,333,600 shares(1)
Use of Proceeds	For acquisition and development of assisted living facilities, for repayment of certain indebtedness due to IHS and for general corporate purposes
Proposed Nasdaq National Market symbol	ILCC

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(1) Excludes (i) 855,500 shares of Common Stock issuable upon exercise of outstanding options and (ii) 94,540 additional shares of Common Stock reserved for issuance pursuant to the Company's stock option plans. See "Management -- Stock Options."

SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				SIX MONTHS ENDED JUNE 30,		
			1995			1996	
	1993	1994	ACTUAL	PRO FORMA(1)	1995	ACTUAL	PRO FORMA(1)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data(2):							
Net revenues	$5,240	$11,645	$16,269	$27,452	$8,018	$11,295	$14,241
Facility operations	3,455	8,254	11,243	18,522	5,576	7,138	9,379
Facility rents	856	1,466	2,430	1,770	1,215	1,309	1,005
Corporate administrative and general	315	726	1,005	3,895	499	678	1,948
Depreciation and amortization	24	369	414	1,671	206	480	912
Loss on impairment of long-lived assets(3)	--	--	5,126	5,126	--	--	--
Earnings (loss) before income taxes	590	830	(3,949)	(3,532)	522	1,690	997
Federal and state income taxes	230	311	(629)	(468)	201	651	384
Net earnings (loss)	$ 360	$ 519	$(3,320)	$(3,064)	$ 321	$ 1,039	$ 613
Earnings (loss) per common share	$ 0.09	$ 0.13	$ (0.85)	$ (0.63)	$ 0.08	$ 0.27	$ 0.13
Weighted average shares outstanding(4)	3,898	3,898	3,898	4,835	3,898	3,898	4,835

</TABLE>

	JUNE 30, 1996		
	ACTUAL	PRO FORMA(5)	PRO FORMA AS ADJUSTED(6)
Balance Sheet Data:			
Cash and cash equivalents	$ 120	$ 120	$14,920
Total assets	55,465	67,745	82,545
Note payable to parent company	3,363	3,363	--
Stockholder's equity	40,331	52,531	70,694

---

(1) The pro forma statement of operations data for the year ended December 31, 1995 and the six months ended June 30, 1996 were prepared as if the Company's interest in the following facilities had been acquired on January 1, 1995: Vintage Healthcare Center ("Vintage"), which was leased by the Company commencing January 29, 1996; Terrace Gardens Healthcare and Retirement Center ("Terrace Gardens"), which the Company has agreed to acquire simultaneous with the closing of this offering; Homestead of Garden City ("Garden City"), which the Company leased effective July 1, 1996; and Carrington Pointe, which the Company acquired effective December 31, 1995. Effective June 1, 1996, the Company received as a capital contribution condominium interests in the assisted living and related portions of the Vintage, Treemont Retirement Community ("Treemont") and West Palm Beach Retirement ("West Palm Beach") facilities which the Company had previously leased from IHS. Accordingly, the pro forma statement of operations data is adjusted to decrease rent expense

associated with these facilities and to increase depreciation resulting from the receipt of a condominium interest in these facilities. The pro forma statement of operations data is also adjusted to (i) increase facility rents to reflect an increase in rent for the Company's Shores and Cheyenne Place Retirement ("Cheyenne Place") facilities effective June 1, 1996 and (ii) increase corporate administrative and general expenses to reflect management's estimate of the additional corporate administrative and general expense that would have been incurred during the period if the Company had operated on a stand-alone basis. No pro forma adjustments have been made to reflect the operations of the Homestead of Wichita facility ("Homestead Wichita"), which the Company leased commencing July 17, 1996, or the Cabot Pointe facility, which the Company acquired in August 1996 and intends to sell and lease back pursuant to a sale/leaseback transaction which the Company anticipates will close in September 1996, because such facilities were not in operation at June 30, 1996. See "Company History," "Use of Proceeds," "Pro Forma Financial Information" and "Business -- Properties."

(2) The Company has grown substantially through acquisitions, which materially affects the comparability of the financial data reflected herein. See "Company History" and "Certain Transactions."

(3) In 1995, the Company implemented Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121 in connection with IHS' implementation thereof. Through evaluation of the recent financial performance and a recent appraisal of one of its facilities, the Company estimated the fair value of this facility and determined that the carrying value of certain long-lived assets, including goodwill and buildings and improvements, exceeded their fair value. The excess carrying value was written off and is included in the statement of operations for 1995 as a

loss on impairment of long-lived assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(4) The pro forma weighted average shares outstanding is presented as if the Company sold 937,020 shares of Common Stock, representing the number of shares which would be required to be sold by the Company at the assumed initial public offering price of $14.00 per share (net of estimated underwriting discounts) in order for the Company to pay the purchase price for the Terrace Gardens facility. See "Use of Proceeds."

(5) The pro forma balance sheet data as of June 30, 1996 was prepared as if the acquisition of the Terrace Gardens facility, which is expected to close simultaneous with the closing of this offering, had been consummated as of June 30, 1996. No pro forma adjustments have been made to reflect the acquisition of leasehold interests in the Cabot Pointe, Garden City and Homestead Wichita facilities because such acquisitions will have no effect on the Company's balance sheet. See "Company History," "Use of Proceeds," "Pro Forma Financial Information" and "Business -- Properties."

(6) Adjusted to reflect (i) the transaction reflected in note 5 above and (ii) the sale of 2,435,700 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $14.00 per share and the application of the estimated net proceeds therefrom as described under "Use of Proceeds."

RELATIONSHIPS WITH INTEGRATED HEALTH SERVICES, INC.

The Company is a wholly-owned subsidiary of Integrated Health Services, Inc. Upon completion of this offering, IHS and its directors and executive officers will continue to beneficially own approximately 23.0% of the Company's outstanding Common Stock (approximately 20.7% if the Underwriters exercise their over-allotment option in full), and IHS will be the Company's largest stockholder. As a result of its ownership interest upon completion of this offering, IHS could have a significant influence over, and may be able to control, the vote on all matters submitted to stockholders, including the election of directors and the approval of extraordinary transactions. Currently, two of the six members of the Company's Board of Directors are directors and executive officers of IHS. Prior to this offering, IHS provided capital and healthcare and administrative services to the Company. Following completion of this offering certain of these arrangements and services will be terminated and others will be modified. See "Risk Factors -- Dependence on IHS," "-- Potential Conflicts of Interest with IHS" and "Certain Transactions."

Unless otherwise indicated, all information in this Prospectus (i) assumes no exercise of the Underwriters' option to purchase from the Company up to 769,590 additional shares of Common Stock to cover over-allotments, if any, and (ii) gives effect to the issuance of 4,960,900 shares of Common Stock as a dividend to effect a 49,610-for-1 stock split of the Common Stock on June 10, 1996 and IHS' subsequent surrender of 1,063,100 shares of Common Stock to the Company in August 1996. As used herein, unless the context requires otherwise, the terms "Company" and "ILC" include Integrated Living Communities, Inc. and its subsidiaries and predecessors and the term "IHS" includes Integrated Health Services, Inc. and its subsidiaries other than the Company.

RISK FACTORS

Prospective purchasers of the Common Stock offered hereby should consider carefully the factors set forth below, as well as other information contained in this Prospectus, before making a decision to purchase the Common Stock offered hereby. This Prospectus contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below as well as those discussed elsewhere in this Prospectus.

RECENT ORGANIZATION; HISTORY OF LOSSES; ANTICIPATED OPERATING LOSSES

The Company was organized in November 1995 to own, operate and develop assisted living facilities and has a limited operating history. The Company is currently a wholly-owned subsidiary of IHS, which operated 14 of the 19 facilities currently operated by the Company until such operations were transferred to the Company following its formation. For the year ended December 31, 1995 and the six months ended June 30, 1996, the Company had net income (loss) of $(3,320,000) and $1,039,000, respectively. On a pro forma basis, giving effect to the acquisition of the Terrace Gardens facility, which is expected to close simultaneous with this offering (the "Proposed Acquisition"), the acquisition of a leasehold interest in two facilities in July 1996, the

acquisition of the Cabot Pointe facility in August 1996 and the subsequent sale/leaseback of such facility, which the Company anticipates will close in September 1996, the acquisition of the Carrington Pointe facility and the contribution by IHS to the Company's capital of the condominium interests in the Treemont, Vintage and West Palm Beach facilities as if such transactions had occurred on January 1, 1995, as well as the related adjustments to facility rents, depreciation and corporate administrative and general expense, the net income (loss) for the year ended December 31, 1995 and the six months ended June 30, 1996 would have been $(3,064,000) and $613,000, respectively. See "Pro Forma Financial Information."

The Company's growth strategy focuses on the rapid acquisition and development of assisted living facilities. The Company currently expects to open 24 newly developed assisted living facilities in 1997, all of which are expected to incur start-up losses for at least eight months after commencing operations. The Company estimates that it will take approximately six to 12 months for a newly developed assisted living facility to achieve a stabilized level of occupancy (i.e., an occupancy level in excess of 90%). As a result, the Company expects to incur losses at least through the end of 1997. The Company may incur additional operating losses thereafter if it fails to achieve expected occupancy rates at newly acquired or developed facilities or if expenses related to the development, acquisition or operation of newly acquired or developed facilities exceed expectations. There can be no assurance as to when the Company's operations will become profitable, if at all. The inability to achieve profitability at a newly acquired or developed facility on a timely basis could have an adverse effect on the Company's business, operating results and financial condition and the market price of the Common Stock. The success of the Company's future operations is dependent to a large extent on expansion of the Company's operational base. There can be no assurance that the Company will not experience unforeseen expenses, difficulties, complications and delays which could result in greater than anticipated operating losses or otherwise materially adversely affect the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations," "--Liquidity and Capital Resources" and "Business -- Business Strategy."

DIFFICULTIES OF MANAGING RAPID GROWTH

The Company expects the number of facilities it operates will increase substantially as it pursues its rapid growth strategy. The Company's success will depend in large part on identifying suitable development and acquisition opportunities, and its ability to pursue such opportunities, complete developments, consummate acquisitions, create demand for its facilities and effectively operate its assisted living facilities. The Company competes for acquisition and expansion opportunities with companies which have significantly greater financial and management resources than the Company. The Company's growth will place a significant burden on the Company's management and operating personnel and its financial resources. The Company's ability to manage its growth effectively will require it to continue to improve its operational, financial

and management information systems and to continue to attract, train, motivate, manage and retain key employees. There can be no assurance that the Company will be able to implement its rapid growth strategy or that such strategy will ultimately be profitable. If the Company is unable to implement its rapid growth strategy or to manage its growth effectively, its business, operating results and financial condition could be adversely affected. See "-- Difficulties of Integrating Acquisitions," "-- Limited Development Experience; Development Delays and Cost Overruns," "-- Need for Substantial Additional Capital," "--Dependence on Senior Management and Skilled Personnel," "--Competition," "Business -- Business Strategy" and "Management -- Directors and Executive Officers."

DIFFICULTIES OF INTEGRATING ACQUISITIONS

The Company's growth strategy depends significantly upon the rapid acquisition (through purchase, lease or management agreements) of existing assisted living facilities and other properties that it believes it can efficiently reposition as assisted living facilities. The Company's strategy of acquiring, developing or attaining agreements to manage 60 to 75 assisted living facilities per year in each of the next three years is likely to place a significant strain on the Company's management and financial resources. If the Company is unsuccessful in operating newly acquired facilities and integrating them into the Company's existing operations, the Company's business, operating results and financial condition could be adversely affected. There can be no assurance that the Company's acquisition of assisted living facilities will occur at the rate currently expected by the Company or that future acquisitions will be completed in a timely manner, if at all. The success of the Company's acquisitions will be determined by numerous factors, including the Company's ability to identify suitable acquisition candidates, competition for such

acquisitions, the purchase price, the financial performance of the facilities after acquisition and the ability of the Company to integrate effectively the operations of acquired facilities. Acquisitions of facilities are typically subject to a number of closing conditions, including those regarding the status of title to real property included in the acquisition, the results of environmental investigations performed on the Company's behalf, the transfer of applicable licenses or permits and the availability of appropriate financing. In addition, the Company may under certain circumstances acquire skilled-nursing facilities that for various reasons it does not reposition as assisted living facilities or integrate into a continuing care retirement community. There can be no assurance that the Company will successfully dispose of or operate such skilled-nursing facilities. Furthermore, the acquisition of skilled nursing facilities by the Company may exacerbate potential conflicts of interest between the Company and IHS, and could expose directors of the Company to claims that duties to one or both companies have not been met. Any failure by the Company with respect to the repositioning, integration or operation of any acquired facilities may have a material adverse effect on the Company's business, operating results and financial condition. See "--Potential Conflicts of Interest with IHS," "--Difficulties of Managing Rapid Growth," "Business -- Business Strategy" and "Certain Transactions."

LIMITED DEVELOPMENT EXPERIENCE; DEVELOPMENT DELAYS AND COST OVERRUNS

The Company currently expects to open approximately 25 to 35 newly developed assisted living facilities per year over the next three years, and currently has 33 assisted living facilities in various early stages of development. The Company has very limited experience in developing new assisted living facilities and its ability to achieve this objective will be dependent to a great extent upon the experience and abilities of the third-party developers with which the Company has established relationships. To date, the Company has not opened any newly developed assisted living facilities, and there can be no assurance it will be successful in doing so. There can be no assurance that the Company will not suffer delays in its development program, which could slow the Company's growth. Achieving the Company's plan to open 25 to 35 new assisted living facilities in each of the next three years is dependent on numerous factors, many of which the Company is unable to control or significantly influence, which could adversely affect the Company's growth. These factors include, but are not limited to: (i) locating sites for new facilities at acceptable costs; (ii) obtaining proper zoning use permits, development plan approval, authorization and licensing from governmental units in a timely manner; (iii) obtaining adequate financing under acceptable terms; (iv) relying on third-party architects and contractors and the availability and costs of labor and construction materials, as well as weather; and (v) obtaining qualified staff. Development of assisted living facilities can be delayed or precluded by various zoning, healthcare licensing and other applicable governmental regulations and restric-

tions. ILC may also incur construction costs that exceed original estimates, may experience competition in the search for suitable development sites and may be unable to arrange financing for development. The Company intends to rely on third-party developers to construct new assisted living facilities. There can be no assurance that the Company will not experience difficulties in working with developers, project managers, general contractors and subcontractors, any of which difficulties could result in increased construction costs and delays. The Company estimates that the development cost of most of its assisted living facilities will generally range from approximately $68,000 to $75,000 per unit, depending on local variations in land and construction costs, with an overall average development cost of approximately $72,000 per unit. The Company estimates that it will require approximately six months from the date of land acquisition to develop its 40 unit facilities and approximately nine months from the date of land acquisition to develop its 80 unit facilities. However, project development is subject to a number of contingencies over which the Company will have little control and that may adversely affect project cost and completion time, including shortages of, or the inability to obtain, labor or materials, the inability of the general contractor or subcontractors to perform under their contracts, strikes, adverse weather conditions and changes in applicable laws or regulations or in the method of applying such laws and regulations. If the Company's development schedule is delayed, the Company's business, operating results and financial condition could be adversely affected. In addition, the Company estimates that it will take approximately six to 12 months for a newly developed assisted living facility to achieve a stabilized level of occupancy (i.e., an occupancy level in excess of 90%) and that each new facility will incur start-up losses for at least eight months after commencing operations. See "-- Recent Organization; History of Losses; Anticipated Operating Losses," "--Difficulties of Managing Rapid Growth," "--Dependence on Senior Management and Skilled Personnel," "Business -- Business Strategy," "--Development and Acquisition" and "--Properties -- Development."

NEED FOR SUBSTANTIAL ADDITIONAL CAPITAL

To achieve its growth objectives, the Company will need to obtain substantial additional financial resources to fund its development, construction and acquisition activities and anticipated operating losses. Accordingly, the Company's future growth will depend on its ability to obtain additional financing on acceptable terms. The Company does not expect any of its newly developed assisted living facilities to generate positive cash flow for at least eight months after commencing operations. As a result, the Company expects negative cash flow for at least the next several years as it continues to develop and acquire assisted living facilities. There can be no assurance that any newly developed facility will achieve a stabilized occupancy rate and resident mix that meets the Company's expectations or generates positive cash flow. The Company currently estimates that the net proceeds to be received by it in this offering, together with financing commitments and sale/leaseback and mortgage financing that it anticipates will be available, will be sufficient to fund its acquisition and development program and its anticipated operating losses for at least the next 12 months. There can be no assurance, however, that the Company will not be required to seek additional capital earlier. There are a number of circumstances beyond the Company's control that may result in the Company's financial resources being inadequate to meet its needs. The Company expects from time to time to seek additional funds through public or private financing, including equity financing. If additional funds are raised by issuing equity securities, the Company's stockholders may experience dilution. Further, such equity securities may have rights, preferences or privileges senior to those of the Common Stock. To the extent the Company finances its activities through debt or sale/leaseback arrangements, the Company may become subject to certain financial and other covenants which may restrict its ability to pursue its rapid growth strategy and to pay dividends on the Common Stock. There can be no assurance that adequate equity, debt or sale/leaseback financing will be available as needed or on terms acceptable to the Company. A lack of available funds may require the Company to delay, scale back or eliminate all or some of its development and acquisition projects and could have a material adverse effect on the Company's business, financial condition and results of operations. See "--Recent Organization; History of Losses; Anticipated Operating Losses," "--Substantial Anticipated Debt and Lease Obligations," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Description of Capital Stock."

SUBSTANTIAL ANTICIPATED DEBT AND LEASE OBLIGATIONS

The Company intends to finance the development and acquisition of its assisted living facilities through mortgage financing, operating leases (including sale/leaseback financing) and lines of credit. As a result, the Company expects to incur substantial indebtedness and debt related payments (including payments on operating leases) as the Company pursues its growth strategy. The Company is presently a party to long-term operating leases for four of its residential facilities and anticipates that it will lease the Cabot Pointe facility commencing in September 1996. These leases require minimum annual lease payments aggregating approximately $2.4 million in 1996, and generally provide for annual rent increases. The Company currently expects to finance 24 of its assisted living facilities currently under development through sale/leaseback transactions or mortgage financing, although the Company may lease certain of these facilities from the developer. The remaining nine facilities currently under development are expected to be leased from the developer which owns the facilities. As a result, it is anticipated that a substantial portion of the Company's cash flow will be devoted to debt service and lease payments. There can be no assurance that the Company will generate sufficient cash flow from operations to cover required interest, principal and lease payments. If the Company were unable to meet interest, principal or lease payments, or satisfy financial covenants relating to, among other things, cash flow and debt coverage ratios, it could be required to seek renegotiation of such payments or obtain additional equity or debt financing. There can be no assurance that any such efforts would be successful or timely or that the terms of any such financing or refinancing would be acceptable to the Company. Any payment or other default could cause the lender to foreclose upon the facilities securing such indebtedness or, in the case of an operating lease, could result in termination of the lease, with a consequent loss of income and asset value to the Company. Furthermore, to the extent the Company's mortgage and sale/leaseback agreements contain cross-default and cross-collateralization provisions, a default by the Company on one of its payment obligations could adversely affect a significant number of the Company's properties. The Company's leverage may also adversely affect the Company's ability to respond to changing business and economic conditions or continue its development and acquisition program. See "--Need for Substantial Additional Capital," "Management's Discussion and Analysis of Financial Condition and Results of Operations --

Liquidity and Capital Resources" and "Business -- Properties."

UNCERTAINTY OF THE PROPOSED ACQUISITION(); DIFFICULTIES OF INTEGRATING THE PROPOSED ACQUISITION

The Company has entered into an agreement to acquire one assisted living facility for an aggregate purchase price of $12.2 million. The closing of the Terrace Gardens acquisition is subject to certain customary conditions, including conditions regarding the status of title to real property being acquired, the results of environmental investigations performed on the Company's behalf and the transfer of applicable licenses and permits. Although the Company expects the proposed acquisition of the Terrace Gardens facility to be consummated simultaneous with the closing of this offering, there can be no assurance that the conditions to closing will be satisfied in a timely manner, if at all. Any delay or failure to consummate the acquisition of Terrace Gardens could have an adverse effect on the Company's operating results. Additionally, there can be no assurance that the Company's anticipated sale and leaseback of the Cabot Pointe facility will be consummated in September 1996 as scheduled or at all. The Terrace Gardens acquisition, together with the acquisition of a leasehold interest in two facilities in July 1996 and the acquisition of the Cabot Pointe facility in August 1996, will result in a 23.5% increase in the number of facilities, and a 21.1% increase in the number of units, operated by the Company at June 30, 1996. Such an increase in the Company's operations may strain the Company's available resources, and there can be no assurance that the Company will successfully assume operational control over the newly acquired facilities or integrate them with the Company's existing operations. If the Company is unsuccessful in operating the newly acquired facilities and integrating them into the Company's existing operations, the Company's business, operating results and financial condition could be adversely affected. See "--Difficulties of Managing Rapid Growth," "--Difficulties of Integrating Acquisitions," "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Business -- Properties -- Proposed Acquisition."

DEPENDENCE ON SENIOR MANAGEMENT AND SKILLED PERSONNEL

The Company depends, and will continue to depend, on the services of Robert N. Elkins, M.D., its Chairman of the Board, Edward Komp, its President and Chief Executive Officer and other key man-

agement staff. The loss of the services of Dr. Elkins or Mr. Komp could have a material adverse effect on the Company's business, operating results and financial condition. Dr. Elkins is Chairman of the Board and Chief Executive Officer of IHS. As a result, he will not be devoting his full time and efforts to the Company. See "--Potential Conflicts of Interest with IHS." The Company also depends on its ability to attract and retain management personnel who will be responsible for the day-to-day operations of each of its residential facilities. The Company's ability to attract and retain management personnel for its facilities will be critical to the success of the Company's rapid growth strategy, which contemplates acquiring, developing or acquiring agreements to manage 60 to 75 new assisted living facilities per year for each of the next three years. If the Company is unable to hire qualified management to operate its assisted living facilities, the Company's business, operating results and financial condition could be adversely affected. See "Management."

STAFFING AND LABOR COSTS

The Company competes with various healthcare providers, including other assisted living providers, with respect to attracting and retaining qualified or skilled personnel. The Company also depends on the available labor pool of low-wage employees. A shortage of nurses or other trained personnel or general inflationary pressures may require the Company to enhance its wage and benefits package in order to compete. There can be no assurance that the Company's labor costs will not increase or, if they do, that they can be matched by corresponding increases in revenues. Any significant failure by the Company to attract and retain qualified employees, to control its labor costs or to match increases in its labor expenses with corresponding increases in revenues could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Employees."

DEPENDENCE ON ATTRACTING SENIORS WITH SUFFICIENT RESOURCES TO PAY

The Company currently, and for the foreseeable future, expects to rely primarily on its residents' ability to pay the Company's fees from their own or familial financial resources. Generally only seniors with income or assets meeting or exceeding the comparable median in the region where the Company's assisted living facilities are located are expected to be able to afford the Company's fees. Inflation or other circumstances that adversely affect the ability of seniors to pay for the Company's services could have an adverse

effect on the Company. If the Company encounters difficulty in attracting seniors with adequate resources to pay for its services, its business, operating results and financial condition could be adversely affected. See "Business -- Services."

SUBSTANTIAL PORTION OF THE OFFERING TO BENEFIT IHS

IHS will receive approximately $35.1 million (assuming an initial public offering price of $14.00 per share and after deducting estimated underwriting discounts) for the shares of Common Stock to be sold by it in this offering, which shares were received by IHS from the Company in January 1996 in consideration of IHS' transfer to the Company of 14 of the 19 assisted living facilities currently operated by the Company. In addition, the Company will use a portion of the proceeds of this offering to repay all amounts the Company has borrowed from IHS, which at August 15, 1996 aggregated $6.7 million. See "--Potential Conflicts of Interest with IHS," "Company History" and "Use of Proceeds."

DEPENDENCE ON IHS

The Company was formed in November 1995 as a wholly-owned subsidiary of IHS to operate the assisted living and other senior housing facilities owned, leased or managed by IHS. To date, IHS has provided all required financial, legal, accounting, human resources and information systems services to the Company, and has satisfied all the Company's capital requirements in excess of internally generated funds. Subsequent to the closing of this offering, the Company will be responsible for obtaining its own external sources of financing and for its own financial, legal, accounting, human resources and information systems services. The Company believes that the cost of these services following this offering will exceed substantially the expense for these services allocated to the Company by IHS. There can be no assurance that the Company will be successful in obtaining these services. IHS has agreed to provide certain accounting and infor-

mation systems services to the Company until it has implemented its own MIS and accounting systems, which the Company anticipates will occur in the fourth quarter of 1996. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business -- Operations" and "Certain Transactions."

The Company currently subleases The Shores and Cheyenne Place facilities from IHS. IHS leases these facilities, as well as 41 other facilities, from Litchfield Asset Management Corp. ("LAM"). IHS is required to meet certain financial tests under its agreement with LAM and, to the extent IHS is unable to meet such tests, LAM has the right to terminate IHS' lease of the 43 facilities, which would result in the termination of the subleases. The loss of these facilities, which accounted for approximately 39.0% and 29.0% of the Company's revenues, and approximately 39.6% and 14.8% of the Company's earnings before loss from impairment of long-lived assets in the year ended December 31, 1995 and the six months ended June 30, 1996, respectively, could have a material adverse effect on the Company's business, results of operations and financial condition. There can be no assurance that IHS will be able to meet such tests.

POTENTIAL CONFLICTS OF INTEREST WITH IHS

Robert N. Elkins, M.D., the Chairman of the Board of the Company, and Lawrence P. Cirka, a director of the Company, are the Chairman of the Board and Chief Executive Officer and President, Chief Operating Officer and a director, respectively, of IHS and, as a result, may have conflicts of interest in addressing business opportunities and strategies with respect to which the Company's and IHS' interests differ. The Company and IHS have not adopted any formal procedures designed to assure that conflicts of interest will not occur or to resolve any such conflicts. Dr. Elkins is also a director and principal stockholder of Community Care of America, Inc. ("CCA"), which operates long-term care and assisted living facilities, and is a director of Capstone Capital Corporation, a real estate investment trust from which the Company expects to receive financing. IHS will continue to operate Alzheimer's units in certain of its skilled nursing facilities, including the skilled nursing facilities located in the condominiums in which the Company's Treemont and West Palm Beach facilities are located. The Company is prohibited from including a segregated and secured Alzheimer's ward in its portion of these facilities. In geographic areas where the Company and either IHS or CCA operates a facility, ILC will be competing with these companies for residents for its facilities. In addition, upon completion of this offering IHS, Dr. Elkins and Mr. Cirka will continue to beneficially own in aggregate approximately 23.0% of the Company's outstanding Common Stock (approximately 20.7% if the Underwriters' exercise their over-allotment option in full), and IHS will be the Company's largest stockholder. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources," "Business --

Properties," "Certain Transactions" and "Principal and Selling Stockholders."

DISCRETIONARY USE OF PROCEEDS

The Company will use approximately $12.2 million of the net proceeds from this offering to finance the purchase of the Terrace Gardens facility and a portion of the net proceeds to repay outstanding loans from IHS, which aggregated $6.7 million at August 15, 1996. The Company expects to use the remaining net proceeds (approximately $11.5 million, assuming an initial public offering price of $14.00 per share (approximately $14.2 million if the sale/leaseback transaction for the Cabot Pointe facility is consummated prior to the closing of this offering)) to fund the development and acquisition of additional assisted living facilities and for general corporate purposes, including working capital. The Company will have broad discretion in using the unallocated net proceeds of this offering. See "Use of Proceeds."

POSSIBLE ENVIRONMENTAL LIABILITIES

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be held liable for the costs of removal or remediation of certain hazardous or toxic substances, including, without limitation, asbestos-containing materials or petroleum, that could be located on, in or under such property. Such laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic

substances. The costs of any required remediation or removal of these substances could be substantial and the liability of an owner or operator as to any property is generally not limited under such laws and regulations, and could exceed the value of the property and the aggregate assets of the owner or operator. The presence of these substances or failure to remediate such substances properly may also adversely affect the owner's ability to sell or rent the property, to borrow using the property as collateral or, in the case of facilities currently being developed, to occupy and use the property. Under these laws and regulations, an owner, operator or any entity which arranges for the disposal of hazardous or toxic substances, such as asbestos-containing materials, at a disposal site may also be liable for the costs of any required remediation or removal of the hazardous or toxic substances at the disposal site. In connection with the ownership or operation of its properties, the Company could be liable for these costs, as well as certain other costs, including governmental fines and injuries to persons or properties. As a result, the presence, with or without the Company's knowledge, of hazardous or toxic substances at any property held, operated or developed by the Company could have an adverse effect on the Company's business, operating results and financial condition. Further, the Company cannot predict the nature, scope or effect of legislation or regulatory requirements that could be imposed or how existing or future laws or regulations will be administered or interpreted with respect to activities to which they have not previously applied. Compliance with more stringent laws or regulations, as well as more vigorous enforcement policies of regulatory agencies, could require substantial expenditures by the Company and could adversely affect the results of operations of the Company.

GOVERNMENTAL REGULATION

Healthcare is heavily regulated at the federal, state and local levels and represents an area of extensive and frequent regulatory change. A number of legislative and regulatory initiatives relating to long-term care are proposed or under study at both the federal and state levels that, if enacted or adopted, could have an adverse effect on the Company's business and operating results. The Company cannot predict whether and to what extent any such legislative or regulatory initiatives will be enacted or adopted, and therefore cannot assess what effect any current or future initiatives would have on the Company's business and operating results. Changes in applicable laws and new interpretations of existing laws can significantly affect the Company's operations, as well as its revenues (particularly those from governmental sources) and expenses. The Company's facilities are subject to varying degrees of regulation and licensing by local and state health and social service agencies and other regulatory authorities specific to their location. While regulations and licensing requirements often vary significantly from state to state, they typically address, among other things: personnel education, training and records; facility services, including administration of medication, assistance with self-administration of medication and limited nursing services; physical plant specifications; furnishing of resident units; food and housekeeping services; emergency evacuation plans; and resident rights and responsibilities. In several states assisted living facilities also require a certificate of need before the facility can be opened. In most states, assisted living facilities also are subject to state or local building codes, fire codes and food service licensure or certification requirements. Like other healthcare

facilities, assisted living facilities are subject to periodic survey or inspection by governmental authorities. The Company's success will depend in part on its ability to satisfy such regulations and requirements and to acquire and maintain any required licenses. The Company's operations could also be adversely affected by, among other things, regulatory developments such as mandatory increases in the scope and quality of care to be offered to residents and revisions in licensing and certification standards. In addition, the Company is subject to certain federal and state laws that regulate relationships among providers of healthcare services. These laws include the Medicare and Medicaid anti-kickback provisions of the Social Security Act, which prohibit the payment or receipt of any remuneration by anyone in return for, or to induce, the referral of patients for items or services that are paid for, in whole or in part, by Medicare or Medicaid. A violation of these provisions may result in civil or criminal penalties for individuals or entities and/or exclusion from participation in the Medicare and Medicaid programs. Federal, state and local governments occasionally conduct unannounced investigations, audits and reviews to determine whether violations of applicable rules and regulations exist. Devoting management and staff time and legal resources to such investigations, as well as any material violation by the Company that is discovered in any such investigation, audit or review, could have a material adverse effect on the Company's business, operating results and financial condition. See "Business -- Business Strategy" and "--Governmental Regulation."

The Company and its activities are subject to zoning and other state and local government regulations. Zoning variances or use permits are often required for construction. Severely restrictive regulations could impair the ability of the Company to open additional residences at desired locations or could result in costly delays, which could adversely affect the Company's growth strategy and results. See "--Limited Development Experience; Development Delays and Cost Overruns," "Business -- Business Strategy" and "--Development and Acquisition."

Certain states provide for Medicaid reimbursement for assisted living services pursuant to Medicaid Waiver Programs permitted by the Federal government. In the event the Company elects to provide services in states with a Medicaid Waiver Program, the Company may then elect to become certified as a Medicaid provider in such states. As a provider of services under the Medicaid Waiver Program, the Company will be subject to all of the requirements of such program, including the fraud and abuse laws, violations of which may result in civil and criminal penalties and exclusion from further participation in the Medicaid Waiver Program. The Company intends to comply with all applicable laws, including the fraud and abuse laws; however, there can be no assurance that administrative or judicial interpretation of existing laws or regulations will not in the future have a material adverse impact on the Company's business, results of operations or financial condition. See "Business -- Governmental Regulation."

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist which also may require modifications to existing and planned properties to create access to the properties by disabled persons. While the Company believes that its properties are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis than anticipated, additional costs would be incurred by the Company. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

COMPETITION

The healthcare industry is highly competitive and the Company expects that the assisted living segment in particular will become more competitive in the future. In general, regulatory and other barriers to competitive entry in the assisted living industry are presently not substantial. The Company will continue to face competition from numerous local, regional and national providers of assisted living and long-term care. The Company will compete with skilled nursing facilities and acute care hospitals primarily on the bases of cost, quality of care, array of services provided and physician referrals. The Company will also compete with companies providing home-based healthcare, and even family members, based on those factors as well as the reputation, geographic location, physical appearance of facilities and family preferences. Some of the Company's competitors operate on a not-for-profit basis or as charitable organizations, while others have, or may obtain, greater financial resources than those of the Company. However, the Company anticipates that its most significant competition will come from other assisted living and long-term care facilities within the same geographic area as the Company's facilities because management's experience indicates that senior citizens frequently elect

to move into facilities near their homes.

In implementing its growth strategy, the Company expects to face competition in its efforts to develop and acquire assisted living facilities. Some of the Company's present and potential competitors are significantly larger and have, or may obtain, greater financial resources than those of the Company. A significant number of industry competitors have recently raised financing in the public markets, providing them with cash to develop and acquire assisted living facilities and making it easier for them to use their equity and debt securities as consideration for acquisitions. Consequently, there can be no assurance that the Company will not encounter increased competition in the future that could limit its ability to attract residents or expand its business and therefore have a material adverse effect on its business, operating results and financial condition. Further, if the development of new assisted living facilities outpaces demand for those facilities in the markets in which the Company has or is developing facilities, such markets may become saturated. Such an oversupply of facilities could cause the Company to experience decreased occupancy, depressed margins and lower profitability. See "Business -- Competition."

POTENTIAL ADVERSE IMPACT OF GOVERNMENTAL REIMBURSEMENT PROGRAMS

Currently, the federal government does not provide any reimbursement for the type of assisted living services offered by the Company, although the federal government does provide reimbursement for the services provided in the skilled nursing beds located in the Company's continuing care retirement communities. Although some states have reimbursement programs in place, the level of reimbursement is generally insufficient to cover the costs of the Company's assisted living services. Currently all of the Company's revenue is from private pay sources except that one of its managed facilities, which includes 60 skilled nursing units, received approximately 23% of its revenues in the year ended December 31, 1995 from federal and state reimbursement programs. Depending in part on the results of the Company's acquisition and development program, net revenues from governmental reimbursement programs could increase from time to time. There can be no assurance that the Company or the facilities which it manages will continue to meet the requirements for participating in governmental reimbursement programs. Furthermore, governmental reimbursement programs are subject to statutory and regulatory changes, retroactive rate settlements, administrative rulings and governmental funding restrictions, some of which could have a material adverse effect on the future rate of payment to facilities operated by the Company. A substantial dependence on governmental reimbursement programs, changes in the funding levels of such programs or the failure of the Company's operations to qualify for governmental reimbursement could have an adverse effect on the Company's business, operating results and financial condition. See "--Governmental Regulation," "Business -- Governmental Regulation" and "--Operations -- Service Revenue Sources."

GEOGRAPHIC CONCENTRATION

A significant number of the 53 properties currently operated, managed, proposed to be acquired or under development are located in California and Texas (14 and 12 facilities, respectively). The market value of these properties and the income generated from properties managed or leased by the Company could be negatively affected by changes in local and regional economic conditions and by acts of nature. See "Business -- Properties." In addition, the Company anticipates that a substantial portion of its business and operations will ultimately be concentrated in several states in the southern, midwestern and western portion of the United States, and that economic conditions in such states may adversely affect the Company's business, results of operations and financial condition.

LIABILITY AND INSURANCE

The Company's business entails an inherent risk of liability. In recent years, participants in the long-term care industry, including the Company, have become subject to an increasing number of lawsuits alleging malpractice or related legal theories, many of which involve large claims and significant legal costs. The Company expects that from time to time it will be subject to such suits as a result of the nature of its business. The Company currently maintains insurance policies in amounts and with such coverage and deductibles as it deems appropriate, based on the nature and risks of its business, historical experience and industry standards. There can be no assurance, however, that claims in excess of the Company's insurance coverage or claims not covered by the Company's insurance coverage will not arise. A successful claim against the Company not covered by, or in excess of, the Company's insurance could have a material adverse effect on the Company's operating results and financial condition. Claims against the Company, regardless of their merit or eventual outcome, may also have a material adverse effect on the Company's ability to attract residents or expand its business and would require management to devote time to matters unrelated to the operation of the Company's business. In

addition, the Company's insurance policies must be renewed annually, and there can be no assurance that the Company will be able to obtain liability insurance coverage in the future or, if available, that such coverage will be on acceptable terms.

SHARES ELIGIBLE FOR FUTURE SALE; REGISTRATION RIGHTS

Sales of substantial amounts of shares of Common Stock in the public market after this offering or the perception that such sales could occur could adversely affect the market price of the Common Stock and the Company's ability to raise equity. Upon completion of this offering, the Company will have 6,333,600 shares of Common Stock outstanding (7,103,190 shares if the Underwriters' over-allotment option is exercised in

full). Of these shares, the 5,130,600 shares sold in this offering will be freely tradable without restriction or limitation under the Securities Act of 1933, as amended (the "Securities Act"), except for any shares purchased by "affiliates" of the Company, as such term is defined in Rule 144 promulgated under the Securities Act. The remaining 1,203,000 shares, all of which will be owned by IHS, are "restricted securities" within the meaning of Rule 144. The Company, its directors and officers and IHS have agreed with the Underwriters pursuant to "lock-up" agreements not to sell or otherwise dispose of any shares of Common Stock, any options or warrants to purchase shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, shares of Common Stock for a period of 180 days after the date of this Prospectus other than, in the case of the Company, in certain limited circumstances, without the prior written consent of Smith Barney Inc. Smith Barney Inc. may, in its sole discretion and at any time without prior notice, release all or any portion of the shares of Common Stock subject to the "lock-up" agreements. Beginning in November 1997, all of the shares which will be held by IHS upon completion of this offering may be sold subject to the volume and other limitations of Rule 144. The Securities and Exchange Commission (the "Commission") has proposed an amendment to Rule 144 under the Securities Act which, if adopted as currently proposed, would permit the sale of such 1,203,000 shares of Common Stock held by IHS upon expiration of the 180-day "lock-up" period referred to above, rather than beginning in January 1998, subject to the volume and other limitations of Rule 144. All shares of Common Stock held by IHS will be eligible for sale to certain qualified institutional buyers in accordance with Rule 144A under the Securities Act. Furthermore, the Company intends to register soon after the date of this Prospectus 950,040 shares of Common Stock reserved for issuance pursuant to the Company's stock option plans and agreements, under which options to purchase 855,500 shares of Common Stock are currently outstanding. The Company has granted IHS "piggyback" and demand "shelf" registration rights with respect to the shares held by IHS upon completion of this offering. If the Company is required to include in a Company-initiated registration shares held by IHS pursuant to the exercise of its "piggyback" registration rights, such sales may have an adverse effect on the Company's ability to raise needed capital. See "Management -- Stock Options," "Description of Capital Stock -- Registration Rights" and "Shares Eligible for Future Sale."

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this offering, there has been no public market for the Common Stock and there can be no assurance that an active trading market will develop or be sustained after this offering. The initial public offering price of the Common Stock will be determined by negotiation among the Company, IHS and the Underwriters and may bear no relationship to the price at which the Common Stock will trade after completion of this offering. For factors that will be considered in determining the initial public offering price, see "Underwriting." After completion of this offering, the market price of the Common Stock could be subject to significant fluctuations in response to various factors and events, including the liquidity of the market for the shares of Common Stock, variations in the Company's operating results, changes in earnings estimates by securities analysts, publicity regarding the assisted living industry or the Company and new statutes or regulations or changes in the interpretation of existing statutes or regulations affecting the healthcare industry in general or the assisted living industry in particular. In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These market fluctuations also may adversely affect the market price of the shares of Common Stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been initiated against such company. Such litigation could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect upon the Company's business, operating results and financial condition.

CONTROL BY CERTAIN PRINCIPAL STOCKHOLDERS

Following completion of this offering, IHS and the Company's executive officers and directors as a group will beneficially own approximately 27.8% of the outstanding Common Stock. Currently, IHS' Chairman of the Board and Chief Executive Officer and President and Chief Operating Officer are two of the six members of the Company's Board of Directors, and IHS' Chairman of the Board serves as Chairman of the Board of the Company. As a result, IHS and the Company's executive officers and

directors as a group could have a significant influence over, and may be able to control, the outcome of all matters submitted to a vote of the Company's stockholders, including the election of directors and significant corporate transactions. See "--Potential Conflicts of Interest with IHS" and "Principal and Selling Stockholders."

EFFECT OF CERTAIN ANTI-TAKEOVER PROVISIONS

The Company's Restated Certificate of Incorporation and By-laws, as well as Delaware corporate law, contain certain provisions that could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of the Company. These provisions could limit the price that certain investors might be willing to pay in the future for shares of Common Stock. Certain of these provisions allow the Company to issue, without stockholder approval, preferred stock having voting rights senior to those of the Common Stock. Other provisions impose various procedural and other requirements that could make it more difficult for stockholders to effect certain corporate actions. In addition, the Company's Board of Directors is divided into three classes, each of which serves for a staggered three-year term, which may make it more difficult for a third party to gain control of the Board of Directors. As a Delaware corporation, the Company is subject to Section 203 of the Delaware General Corporation Law which, in general, prevents an "interested stockholder" (defined generally as a person owning 15% or more of the corporation's outstanding voting stock) from engaging in a "business combination" (as defined) for three years following the date such person became an interested stockholder unless certain conditions are satisfied. See "Description of Capital Stock -- Preferred Stock," "-- Certain Provisions of the Restated Certificate of Incorporation and By-laws" and "--Delaware Anti-Takeover Law."

IMMEDIATE AND SUBSTANTIAL DILUTION

The existing stockholder of the Company acquired its shares of Common Stock at an average cost substantially below the initial public offering price set forth on the cover page of this Prospectus. Therefore, purchasers of Common Stock in this offering will experience immediate and substantial dilution, which, at the assumed initial public offering price of $14.00 per share, will be $2.84 per share. See "Dilution."

NO DIVIDENDS

The Company anticipates that future earnings will be retained by the Company for the development of its business. Accordingly, the Company does not anticipate paying cash dividends on its Common Stock in the forseeable future. See "Dividend Policy."

COMPANY HISTORY

GENERAL

The Company was formed in November 1995 as a wholly-owned subsidiary of IHS to operate the assisted living and other senior housing facilities owned, leased and managed by IHS. Following the Company's formation, IHS transferred to the Company as a capital contribution its ownership interest in the Waterside Retirement Estates ("Waterside") and The Homestead facilities, sublet to the Company The Shores and Cheyenne Place facilities, and leased to the Company the assisted living and related portions of the Treemont Retirement Community and West Palm Beach Retirement facilities. IHS also transferred to the Company agreements to manage nine facilities (one of which was cancelled by mutual agreement in July 1996). The Company's principal executive offices are located at Bernwood Centre, 24850 Old 41 Road, Suite 10, Bonita Springs, Florida 34135, and its telephone number is 941-974-7200.

ACQUISITION HISTORY

In January 1989, IHS acquired a leasehold interest in the Dallas at Treemont facility, a skilled nursing facility with a 231 unit assisted living, Alzheimer's and adult day care facility, and IHS subsequently purchased the Dallas at Treemont facility in June 1994. The Company leased the assisted living, Alzheimer's and adult day care portions of this facility from IHS until June 1, 1996, when the Company and IHS entered into a condominium agreement for the Dallas at Treemont facility. In connection with the condominium agreement, the Company received as a capital contribution from IHS the condominium interest in the assisted living, Alzheimer's and adult day care portion of the facility.

In December 1993, IHS acquired Central Park Lodges, Inc., which owned the West Palm Beach skilled nursing and assisted living facility and a partnership interest in the Waterside facility, a continuing care retirement community; IHS subsequently acquired the remaining partnership interests in Waterside. The Company received the Waterside facility from IHS as a capital contribution and leased the assisted living portion of the West Palm Beach facility from IHS until June 1, 1996, when the Company and IHS entered into a condominium agreement for the West Palm Beach facility. In connection with the condominium agreement, the Company received as a capital contribution from IHS the condominium interest in the assisted living portion of the facility.

In March 1994, IHS acquired The Homestead, a 50 unit assisted living and adult day care facility for a total cost of approximately $1.3 million, adjusted for certain accrued liabilities, prepayments and deposits assumed by IHS. Prior to the purchase IHS had managed the facility under a management agreement with the prior owner. The Company received this facility from IHS as a capital contribution.

In August 1994, IHS entered into separate facility operating leases for the 260 unit Shores and 95 unit Cheyenne Place facilities. IHS has subleased these assisted living facilities, including the related equipment, furniture and fixtures, to the Company. These facilities are part of 43 facilities leased by IHS from LAM. IHS is required to meet certain financial tests under its agreement with LAM and, to the extent IHS is unable to meet such tests, LAM has the right to terminate IHS' lease of the 43 facilities, which would result in the termination of the subleases. There can be no assurance that IHS will be able to meet such tests. See "Risk Factors -- Dependence on IHS."

In December 1995, IHS acquired Carrington Pointe, a 172 unit congregate care and assisted living facility. Prior to the acquisition, IHS had managed the facility under a management agreement with the prior owner. Following the acquisition, IHS transferred ownership of the facility to the Company as a capital contribution.

In January 1996, IHS acquired Vintage Health Care Center, a skilled nursing and assisted and independent living facility which it had previously managed from April 1995. The Company leased the assisted and independent living portions of the facility from IHS until June 1, 1996, when the Company and IHS entered into a condominium agreement for the facility. In connection with the condominium agreement, the Company received as a capital contribution from IHS the condominium interest in the assisted living portion of the facility.

In July 1996 the Company acquired a leasehold interest in the Homestead of Garden City and Homestead Wichita facilities from one of its third party developers. In August 1996 the Company acquired the Cabot Pointe facility for $2.7 million with funds borrowed from IHS. The Company currently anticipates that it will sell the facility to, and lease back this facility from, a real estate investment trust in September 1996. The proceeds of the sale/leaseback transaction will be used to repay amounts borrowed from IHS to fund the acquisition. In addition, the Company has entered into a definitive agreement to acquire the Terrace Gardens facility, which acquisition the Company anticipates will be consummated simultaneous with the closing of this offering. There can be no assurance the sale/leaseback transaction or the acquisition of the Terrace Gardens facility will occur as scheduled, if at all. See "Business -- Properties."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,435,700 shares of Common Stock offered hereby, assuming an initial public offering price of $14.00 per share and after deducting estimated underwriting discounts and offering expenses, are estimated to be $30.4 million ($40.4 million if the over-allotment option granted by the Company to the Underwriters is exercised in full). The Company will not receive any proceeds from the sale of Common Stock by IHS.

The Company intends to use approximately $12.2 million of the net proceeds to purchase the Terrace Gardens facility and a portion of the net proceeds to repay outstanding loans from IHS, which aggregated $6.7 million at August 15, 1996. The remainder of the net proceeds, approximately $11.5 million (approximately $14.2 million if the sale/leaseback transaction for the Cabot Pointe facility is consummated prior to the closing of this offering), will be used to finance development and acquisition of additional assisted living facilities and for working capital and general corporate purposes. Pending such uses, the net proceeds will be invested in short-term, interest-bearing investment grade securities. See "Business -- Strategy."

The outstanding indebtedness to be repaid was borrowed from IHS pursuant to a $75 million revolving credit facility to finance the Company's development activities. Borrowings under the facility bear interest at the rate of 14% per annum and are due at the earlier of (i) the closing of an initial public offering by ILC or (ii) June 30, 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Although an integral part of the Company's business strategy is growth through acquisitions and the Company is currently in discussions with several acquisition candidates, the Company has not entered into any definitive agreements respecting any acquisitions except as set forth under "Business -- Properties -- Proposed Acquisition."

DIVIDEND POLICY

The Company anticipates that future earnings will be retained by the Company for the development of its business. Accordingly, the Company does not anticipate paying cash dividends on its Common Stock in the foreseeable future. The payment of future dividends is within the discretion of the Board of Directors and will depend upon, among other things, the Company's future earnings, if any, its capital requirements, financial condition, the terms of the Company's debt instruments and lease agreements then in effect and other relevant factors. Under a cash management facility provided by IHS, the operating cash balances of the Company's facilities were generally transferred to a centralized account and applied to reduce additional paid-in-capital. See "Risk Factors -- No Dividends" and Note 1 of Notes to Consolidated Financial Statements.

CAPITALIZATION

The following table sets forth the capitalization of the Company (i) as of June 30, 1996, (ii) on a pro forma basis as of such date to give effect to the acquisition of the Terrace Gardens facility and the issuance of 937,020 shares of Common Stock, representing the number of shares which would be required to be sold by the Company at the assumed initial public offering price of $14.00 per share (net of estimated underwriting discounts) in order for the Company to pay the purchase price for the Terrace Gardens facility, as if such transactions had occurred on June 30, 1996, and (iii) on a pro forma basis as of such date as adjusted to reflect the sale of the 2,435,700 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $14.00 per share and the application of the estimated net proceeds therefrom as described under "Use of Proceeds." The table should be read in conjunction with the Financial Statements and notes thereto appearing elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	JUNE 30, 1996		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Note payable to parent company.....	$ 3,363	$ 3,363	$ --
Stockholders' equity:			
Preferred Stock, $.01 par value, 5,000,000 shares authorized; none issued and outstanding.....	--	--	--
Common Stock, $.01 par value, 100,000,000 shares			

authorized; 3,897,900 shares issued and outstanding actual; 4,834,920 shares issued and outstanding pro forma; 6,333,600 shares issued and outstanding pro forma as adjusted(1)	39	48	63
Additional paid-in capital	42,348	54,539	72,687
Accumulated deficit	(2,056)	(2,056)	(2,056)
Total stockholders' equity	40,331	52,531	70,694
Total capitalization	$43,694	$55,894	$70,694

---

(1) Excludes (i) 855,500 shares of Common Stock issuable upon exercise of outstanding options and (ii) 94,540 additional shares of Common Stock reserved for issuance pursuant to the Company's stock option plans. See "Management -- Stock Options."

</TABLE>

DILUTION

At June 30, 1996, the net tangible book value of the Company was approximately $40,331,060, or $10.35 per share. Net tangible book value per share represents the total tangible assets of the Company, reduced by its total liabilities, and divided by the number of shares of Common Stock outstanding. Dilution per share represents the difference between the price per share to be paid by investors in this offering and the pro forma net tangible book value per share of Common Stock immediately after the offering. After giving effect to the sale of the 2,435,700 shares of Common Stock offered by the Company hereby (at an assumed initial public offering price of $14.00 per share) and the application of the estimated net proceeds therefrom as described under "Use of Proceeds," the pro forma net tangible book value of the Common Stock at June 30, 1996 would have been $70,694,000, or $11.16 per share. This represents an immediate increase in the pro forma net tangible book value of $0.81 per share to existing stockholders and an immediate dilution of $2.84 per share to purchasers in this offering, as illustrated in the following table.

<TABLE>
<CAPTION>

<S>	<C>	<C>
Assumed initial public offering price per share		$14.00
Net tangible book value per share as of June 30, 1996	$10.35	
Increase in pro forma net tangible book value per share attributable to this offering	0.81	
Adjusted pro forma net tangible book value per share after this offering (1)		11.16
Dilution per share to new investors (2)		$ 2.84

(1) After deduction of estimated underwriting discounts and expenses of the offering to be paid by the Company.

(2) Assumes no exercise of outstanding options. As of the date of this Prospectus, there are outstanding options to purchase 855,500 shares of Common Stock, all of which have an exercise price equal to the initial public offering price as set forth on the cover page of this Prospectus. See "Management -- Stock Options."

</TABLE>

The following table sets forth as of June 30, 1996 the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by IHS and by new investors purchasing shares from the Company in this offering, at an assumed initial public offering price of $14.00 per share.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
IHS (1).....	3,897,900	61.5%	$42,387,000	55.4%	$10.87
New investors .	2,435,700	38.5	34,099,800	44.6	$14.00
Total.....	6,333,600	100.0%	$76,486,800	100.0%	

---

(1) Sales by IHS in this offering will reduce the number of shares held by it to 1,203,000 shares or 19.0% (16.9% if the Underwriters' over-allotment option is exercised in full) of the total Common Stock outstanding after this offering, and will increase the number of shares held by new investors to 5,130,600 or 81.0% of the total number of shares of Common Stock outstanding after this offering (83.1% if the Underwriters' over-allotment option is exercised in full). Total consideration represents the net book value of the facilities contributed as capital to the Company by IHS less the cash distributions received by IHS from the Company. See "Principal and Selling Stockholders."

The foregoing table assumes no exercise of outstanding stock options or warrants. See "Management -- Stock Options."

PRO FORMA FINANCIAL INFORMATION

The accompanying unaudited pro forma financial statements have been prepared based on the audited consolidated financial statements of ILC for the year ended December 31, 1995 and the unaudited consolidated financial statements of ILC for the six months ended June 30, 1996, as well as the following financial statements:

1) The audited financial statements of Terrace Gardens Health Care and Retirement Center ("Terrace Gardens") as of and for the year ended December 31, 1995, and the unaudited financial statements of Terrace Gardens as of and for the six months ended June 30, 1996.

2) The audited financial statements of Vintage Health Care Center Retirement Division ("Vintage") as of and for the year ended December 31, 1995, and the unaudited twenty-nine day period ended January 29, 1996.

3) The audited financial statements of Carrington Pointe as of and for the year ended December 31, 1995.

4) The audited financial statements of Homestead of Garden City, L.C. ("Garden City") as of and for the period from inception (November 1, 1995) to December 31, 1995, and the unaudited financial statements of Garden City as of and for the six months ended June 30, 1996.

The pro forma balance sheet as of June 30, 1996 was prepared as if the acquisition of the Terrace Gardens facility, which is expected to close simultaneous with the closing of this offering, and the issuance of 937,020 shares of Common Stock, representing the number of shares which would be required to be sold by the Company at the assumed initial public offering price of $14.00 per share (net of estimated underwriting discounts) in order for the Company to pay the purchase price for the Terrace Gardens facility had been consummated as of June 30, 1996. No pro forma adjustments have been made to reflect the acquisition of leasehold interests in the Garden City and Homestead Wichita facilities and the acquisition and anticipated sale/leaseback of the Cabot Pointe facility because such acquisitions will have no effect on the Company's balance sheet. See "Company History," "Use of Proceeds" and "Business -- Properties."

The pro forma statements of operations for the year ended December 31, 1995 and the six months ended June 30, 1996 were prepared as if the Company's interest in the following facilities had been acquired on January 1, 1995: Vintage, which was leased by the Company commencing January 29, 1996; Terrace Gardens, which the Company has agreed to acquire simultaneous with the closing of this offering; Garden City, which was leased by the Company commencing July 1, 1996; and Carrington Pointe, which the Company acquired effective December 31, 1995. No pro forma adjustments have been made to reflect the operations of

the Homestead Wichita facility, which was leased by the Company commencing July 17, 1996, or the Cabot Pointe facility, which the Company acquired in August 1996 and intends to sell and leaseback in September 1996, because such facilities were not in operation at June 30, 1996. Effective June 1, 1996, the Company received as a capital contribution condominium interests in the assisted living and related portions of the Vintage, Treemont and West Palm Beach facilities which the Company had previously leased. Accordingly, the pro forma financial statements are adjusted to decrease rent expense associated with these facilities and to increase depreciation resulting from the ownership of a condominium interest in these facilities. Effective June 1, 1996, the rent for The Shores and Cheyenne Place facilities, which the Company subleases from IHS, was increased, and the pro forma statements of operations are adjusted to reflect this increase in rent. Finally, the pro forma statements are adjusted to reflect the estimated additional corporate administrative and general expenses that would have been incurred if ILC had operated as a stand-alone company. See "Company History," "Use of Proceeds" and "Business -- Properties."

To date IHS has provided all required financial, legal, accounting, human resources and information systems services to the Company, and has satisfied all the Company's capital requirements in excess of internally generated funds. IHS has charged the Company a flat fee of 6% of total revenue for these services, except that with respect to the Waterside facility prior to October 1995, IHS and the minority owner of the facility each charged the Company a fee of 4.5% of monthly service fee revenue for these services. The Company estimates that the cost of obtaining these services from third parties would have been significantly higher than the fees charged by IHS. IHS has agreed to provide certain administrative services to the Company after the closing of this offering until the Company has implemented its own MIS and accounting systems, which the Company anticipates will occur in the fourth quarter of 1996. See "Business -- Operations" and "Certain Transactions."

The unaudited pro forma combined financial information set forth below is not necessarily indicative of the Company's combined financial position or the results of operations that actually would have occurred if the transactions had been consummated on the dates shown. In addition, they are not intended to be a projection of results of operations that may be obtained in the Company's future. The unaudited pro forma combined financial information should be read in conjunction therewith and in conjunction with the financial statements and related notes thereto included elsewhere in the Prospectus.

INTEGRATED LIVING COMMUNITIES, INC.
UNAUDITED PRO FORMA BALANCE SHEET
JUNE 30, 1996
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	ILC	TERRACE GARDENS		PRO FORMA
	ACTUAL	ACTUAL	ADJUSTMENTS(A)	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>
Assets				
Cash and cash equivalents	$ 120	$ 457	$ (457)	$ 120
Accounts receivable	355	387	(387)	355
Prepaid expenses and other current assets	407	79	(79)	407
Total current assets	882	923	(923)	882
Assets limited as to use	705	--		705
Property, plant and equipment, net	50,626	7,895	4,385	62,906
Other assets	3,252	133	(133)	3,252
	$55,465	$8,951	$ 3,329	$67,745
Liabilities and Stockholder's Equity				
Accounts payable	$ 828	$ 176	$ (176)	$ 828
Accrued expenses	1,309	711	(631)	1,389
Current portion of long-term debt	--	324	(324)	--
Total current liabilities	2,137	1,211	(1,131)	2,217
Note payable to parent company	3,363	--		3,363
Refundable deposits	5,398	--		5,398

Deferred income taxes	324	--		324
Unearned entrance fees	3,912	--		3,912
Long-term debt less current portion	--	7,927	(7,927)	--
Total liabilities	15,134	9,138	(9,058)	15,214
Stockholder's equity:				
Common stock, $.01 par value. Authorized 100,000,000 shares; issued and outstanding 3,897,900 shares issued and outstanding actual and 4,834,920 shares issued and outstanding pro forma	39	--	9	48
Additional paid-in capital	42,348	--	12,191	54,539
Retained earnings (deficit)	(2,056)	(187)	187	(2,056)
Net stockholder's equity	40,331	(187)	12,387	52,531
	$55,465	$8,951	$ 3,329	$67,745

</TABLE>

INTEGRATED LIVING COMMUNITIES, INC.
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	ILC		TERRACE GARDENS		VINTAGE		CARRINGTON POINTE		GARDEN CITY		
	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	PRO FORMA CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES:											
MONTHLY SERVICE AND ENTRANCE FEES	$15,123		$5,642		$1,598		$3,486		$ 31		$ 25,880
MANAGEMENT SERVICES AND OTHER	1,146		301		23		102		--		1,572
TOTAL REVENUES	16,269		5,943		1,621		3,588		31		27,452
EXPENSES:											
FACILITY OPERATIONS	11,243		4,068		1,208		1,937		66		18,522
FACILITY RENTS	2,430	$ (708)(B)	--		--		--		--	$ 48 (G)	1,770
CORPORATE ADMINISTRATIVE AND GENERAL	1,005	2,008 (C)	546		81		249		6		3,895
DEPRECIATION AND AMORTIZATION	414	593 (B)	345	$ (47)(D)	200	$(113)(B)	425	$(146)(F)	14	(14)(G)	1,671
LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS	5,126		--		--		--		--		5,126
INTEREST	--		739	(739)(D)	429	(429)(E)	--		16	(16)(G)	--
TOTAL EXPENSES	20,218	1,893	5,698	(786)	1,918	(542)	2,611	(146)	102	18	30,984
EARNINGS (LOSS) BEFORE INCOME TAXES	(3,949)	$(1,893)	$ 245	$ 786	$ (297)	$ 542	$ 977	$ 146	$(71)	$(18)	(3,532)
FEDERAL AND STATE INCOME TAXES	(629)										(468)(H)
NET LOSS	$(3,320)										$(3,064)
NET EARNINGS PER COMMON SHARE	$ (.85)										$ (.63)
WEIGHTED AVERAGE SHARES OUTSTANDING	3,898										4,835

</TABLE>

INTEGRATED LIVING COMMUNITIES, INC.
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	ILC		TERRACE GARDENS		VINTAGE		GARDEN CITY		
	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	ACTUAL	ADJUST-MENTS	PRO FORMA CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues:									
Monthly service and entrance fees..	$10,568		$2,467		$139		$181		$13,355
Management services and other.....	727		157		2		--		886
Total revenues.....	11,295		2,624		141		181		14,241
Expenses:									
Facility operations.....	7,138		1,966		104		171		9,379
Facility rents.....	1,309	$(448)(b)	--		--		--	$144 (g)	1,005
Corporate administrative and general.....	678	1,004 (c)	245		--		21		1,948
Depreciation and amortization.....	480	276 (b)	173	$ (24)(d)	17	$(10)(b)	43	(43)(g)	912
Interest.....	--		339	(339)(d)	36	(36)(e)	56	(56)(g)	--
Total expenses.....	9,605	832	2,723	(363)	157	(46)	291	45	13,244
Earnings (loss) before income taxes.....	1,690	$(832)	$ (99)	$ 363	$(16)	$ 46	$(110)	$(45)	997
Federal and state income taxes	651								384 (h)
Net earnings	$1,039								$ 613
Net earnings per common share	$ .27								$ .13
Weighted average shares outstanding.....	3,898								4,835

</TABLE>

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

PRO FORMA ADJUSTMENTS

(a) To reflect the purchase price of, and estimated transaction costs related to, the acquisition of the Terrace Gardens facility and the issuance of 937,020 shares of Common Stock, representing the number of shares which would be required to be sold by the Company at the assumed initial public offering price of $14.00 per share (net of estimated underwriting discounts) in order for the Company to pay the purchase price for the Terrace Gardens facility, and to eliminate the assets and liabilities retained by the seller. See "Business -- Properties -- Proposed Acquisition."

(b) To reflect depreciation and amortization on the new cost bases; the reduction of rent resulting from the capital contribution of condominium interests in the Treemont, West Palm Beach and Vintage facilities by IHS; and the increase in rent related to The Shores and Cheyenne Place facilities. The Company assumed a 40 year life for the condominium interests.

(c) To reflect management's estimate that corporate pro forma consolidated administrative and general expenses would have been $3,895,000 for the year ended December 31, 1995 and $1,948,000 for the six months ended June 30, 1996 if the Company had operated without the benefit of IHS' management services. This adjustment is based on Company budgets and does not include any additional corporate expenses which may be incurred in implementing the Company's future growth strategy.

(d) To reflect the impact of the Company's new basis in the assets of Terrace

Gardens and the elimination of amortization of deferred financing fees and interest expense on debt not assumed. The Company assumed a 40 year life for building and improvements and a 10 year life for equipment.

(e) To reflect elimination of Vintage's interest expense on debt not assumed.

(f) To reflect the impact of the Company's new basis in the assets of Carrington Pointe. The Company assumed a 40 year life for building and improvements and a 10 year life for equipment.

(g) To reflect the impact of the lease agreement for the Garden City facility.

(h) To adjust consolidated income tax expense for the effect of the adjustments above.

SELECTED CONSOLDATED FINANCIAL DATA

The following selected consolidated financial data as of December 31, 1994 and 1995, and for each of the years in the three-year period ended December 31, 1995 are derived from consolidated financial statements of the Company which have been audited by KPMG Peat Marwick LLP, independent certified public accountants, which appear elsewhere in this Prospectus. The selected consolidated financial data as of December 31, 1991, 1992 and 1993, and for the years ended December 31, 1991 and 1992 are derived from the unaudited consolidated financial statements of the Company. The selected consolidated financial data as of June 30, 1996 and for the six months ended June 30, 1995 and 1996 are derived from the unaudited consolidated financial statements of the Company. In the opinion of management, such unaudited consolidated financial statements contain all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the financial position and results of operations of the Company as of such dates and for such periods. Operating results for the six-month period ended June 30, 1996 are not necessarily indicative of the results that may be expected for any other interim period or for the full year. This selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1991	1992	1993	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:(1)							
Revenues:							
Monthly service and entrance fees..	$4,893	$4,681	$5,010	$10,906	$15,123	$7,471	$10,568
Management services and other.....	72	48	230	739	1,146	547	727
Total revenue.....	4,965	4,729	5,240	11,645	16,269	8,018	11,295
Expenses:							
Facility operations.....	2,987	3,020	3,455	8,254	11,243	5,576	7,138
Facility rents.....	797	821	856	1,466	2,430	1,215	1,309
Corporate administrative and general.....	298	284	315	726	1,005	499	678
Depreciation and amortization.....	--	--	24	369	414	206	480
Loss on impairment of long-lived assets(2).....	--	--	--	--	5,126	--	--
Total expenses.....	4,082	4,125	4,650	10,815	20,218	7,496	9,605
Earnings (loss) before income taxes.....	883	604	590	830	(3,949)	522	1,690
Federal and state income taxes	228	230	230	311	(629)	201	651
Net earnings (loss).....	$ 655	$ 374	$ 360	$ 519	$(3,320)	$ 321	$ 1,039
Earnings (loss) per common share ...	$ 0.17	$ 0.10	$ 0.09	$ 0.13	$ (0.85)	$ 0.08	$ 0.27

Weighted average shares outstanding	3,898	3,898	3,898	3,898	3,898	3,898	3,898

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31,					JUNE 30,
	1991	1992	1993	1994	1995	1996
	(IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:						
Cash and cash equivalents	$ --	$ --	$ 1	$ 787	$ 413	$ 120
Working capital (deficit)	27	26	(36)	208	(315)	(1,256)
Total assets....	27	26	15,834	18,300	25,774	55,465
Note payable to parent company....	--	--	--	--	--	3,363
Stockholder's equity.....	27	26	7,286	8,718	14,773	40,331

(1) The Company has grown substantially through acquisitions, which materially affects the comparability of the financial data reflected herein.

(2) In 1995, the Company implemented Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121 in connection with IHS' implementation thereof. Through evaluation of the recent financial performance and a recent appraisal of one of its facilities, the Company estimated the fair value of this facility and determined that the carrying value of certain long-lived assets, including goodwill and buildings and improvements, exceeded their fair value. The excess carrying value was written off and is included in the statement of operations for 1995 as a loss from impairment of long-lived assets. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with "Selected Consolidated Financial Data" and the Consolidated Financial Statements and related Notes thereto included elsewhere in this Prospectus. This Prospectus contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors" as well as those discussed elsewhere in this Prospectus.

OVERVIEW

The Company currently operates 19 assisted living and other senior housing facilities containing 1,812 units in seven states. The 1,812 units operated by the Company consist of 1,187 assisted living units (including 172 units devoted to Alzheimer's and dementia care), 544 independent living units for persons who require occasional assistance with the activities of daily living and 81 skilled nursing units. The Company is pursuing a strategy of rapid growth through development and acquisition, and intends to acquire, develop or obtain agreements to manage approximately 60 to 75 assisted living facilities per year in each of the next three years. As part of this strategy, ILC is currently developing 33 assisted living facilities, of which 24 are scheduled to open during 1997, has entered into an agreement to acquire one facility containing 258 units simultaneous with the closing of this offering and is evaluating numerous additional acquisition opportunities. All of ILC's revenues from its owned and leased facilities in 1995 and the first six months of 1996 were derived from private pay sources. The Company's historical results of operations are not necessarily indicative of the Company's future financial performance because of the Company's prior operation as a wholly-owned subsidiary of IHS and its strategy to significantly expand its operating base over the next three years.

To achieve its growth objectives, the Company will need to obtain sufficient

financial resources to fund its development, construction and acquisition activities and anticipated operating losses. Accordingly, the Company's future growth will depend on its ability to obtain additional financing on acceptable terms. The Company expects negative cash flow for at least the next several years as it continues to develop and acquire assisted living facilities, primarily as a result of the development and opening of 25 to 35 new assisted living facilities in each of the next three years. There can be no assurance that any newly developed facility will achieve a stabilized occupancy rate and resident mix that meets the Company's expectations or generates positive cash flow. The Company currently estimates that the net proceeds to be received by it in this offering, together with financing commitments and sale/leaseback and mortgage financing that it anticipates will be available, will be sufficient to fund its acquisition and development program and its anticipated operating losses for at least the next 12 months. There can be no assurance, however, that the Company will not be required to seek additional capital earlier. See "Risk Factors -- Need for Substantial Additional Capital" and "-- Liquidity and Capital Resources."

The Company intends to finance the development and acquisition of its assisted living facilities through mortgage financing, operating leases (including sale/leaseback financing) and lines of credit. As a result, the Company expects to incur substantial indebtedness and debt related payments (including payments on operating leases) as the Company pursues its growth strategy. Consequently, the Company anticipates that a substantial portion of the Company's cash flow will be devoted to debt service and lease payments. There can be no assurance that the Company will generate sufficient cash flow from operations to cover required interest, principal and lease payments. The Company's leverage may also adversely affect the Company's ability to respond to changing business and economic conditions or continue its development and acquisition program. See "Risk Factors -- Substantial Anticipated Debt and Lease Obligations."

The Company derives its revenues from two primary sources: (i) resident fees for the delivery of assisted living services and (ii) management services and other income, primarily for management of facilities owned by third parties. Historically, most of the Company's operating revenue has come from resident fees, which in 1995 and the first half of 1996 comprised 93.0% and 93.6%, respectively, of total revenues. Resident fees typically are paid monthly by residents, their families or other responsible parties. Resident fees include revenue derived from basic care, entrance fees, healthcare services provided by the Company, Alzheimer's care and other sources. Entrance fees are one-time fees generally payable by a

resident upon admission. Residents who require personal care in excess of services provided under the basic care program pay additional fees. Management services and other income, which in 1995 and the first half of 1996 accounted for the remaining 7.0% and 6.4%, respectively, of revenues, consists principally of management fees. Management fees are generally in the range of four to five percent of a managed facility's total operating revenues. Resident fees and management fees are recognized as revenues when services are provided.

The Company classifies its operating expenses into the following categories: (i) facility operating expenses, which include labor, food, marketing and other direct facility expenses; (ii) facility development and pre-opening expenses, which include non-capitalized development expenses and pre-opening labor and marketing expenses; (iii) corporate administrative and general expenses, which primarily includes headquarters and regional staff expenses and other overhead costs; and (iv) depreciation and amortization. In anticipation of its growth plans, the Company intends to increase significantly its corporate management and staff in the 12 months following this offering.

From its inception in November 1995 through the present, the Company has been operated as a wholly-owned subsidiary of Integrated Health Services, Inc. To date IHS has provided all required financial, legal, accounting, human resources and information systems services to the Company, and has satisfied all the Company's capital requirements in excess of internally generated funds. IHS has charged the Company a flat fee of 6% of total revenue for these services, except that with respect to the Waterside facility prior to October 1995, IHS and the minority owner of the facility each charged ILC a fee of 4.5% of monthly service fee revenue for these services. The Company estimates that the cost of obtaining these services from third parties would have been significantly higher than the fee charged by IHS. IHS has agreed to provide certain administrative services to the Company after the closing of this offering until the Company has implemented its own MIS and accounting systems, which the Company anticipates will occur in the fourth quarter of 1996. In addition, IHS provides certain building maintenance, housekeeping, emergency call and resident meal services to the Company's Treemont, Vintage and West Palm Beach facilities. See "Business -- Operations" and "Certain Transactions."

The Company believes that for the foreseeable future the greatest portion of its revenue growth will be from the development and acquisition of new facilities. The Company generated 100% of its revenues from its owned and leased facilities from private pay sources during 1995 and the first six months of 1996. However, depending in part on the results of future acquisitions, this percentage could decrease from time to time. The Company believes that, for the foreseeable future, the level of governmental reimbursement for its services that will be available to its residents who receive such reimbursement will be insufficient to cover the costs of delivering the level of service that the Company currently provides. As a result, the Company currently and for the foreseeable future expects to rely primarily on its residents' ability to pay the Company's charges from their own familial financial resources. See "Risk Factors -- Dependence on Attracting Seniors with Sufficient Resources to Pay."

RESULTS OF OPERATIONS

The following table presents selected financial data as a percentage of total revenues for the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
Monthly service and entrance fees	95.6%	93.7%	93.0%	93.2%	93.6%
Management services and other.....	4.4	6.3	7.0	6.8	6.4
Total revenues.....	100.0	100.0	100.0	100.0	100.0
Facility operations.....	66.0	70.8	69.1	69.5	63.2
Facility rents.....	16.3	12.6	14.9	15.2	11.6
Corporate administrative and general ..	6.0	6.2	6.2	6.2	6.0
Depreciation and amortization	0.4	3.2	2.6	2.6	4.2
Loss on impairment of long-lived assets.....	--	--	31.5	--	--
Total expenses.....	88.7	92.8	124.3	93.5	85.0
Earnings (loss) before income taxes ...	11.3	7.2	(24.3)	6.5	15.0
Federal and state income taxes.....	4.4	2.7	(3.9)	2.5	5.8
Net earnings (loss).....	6.9%	4.5%	(20.4)%	4.0%	9.2%

</TABLE>

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 1995

Revenues increased from $8.0 million in 1995 to $11.3 million in 1996, representing a 40.9% increase. Substantially all of the increase in revenues resulted from the acquisition of the Carrington Pointe facility on December 31, 1995 and the leasing of the Vintage facility on January 29, 1996. Average occupancy of the Company's owned and leased facilities during the six months ended June 30, 1996 was 94.4% as compared to 88.1% during the six months ended June 30, 1995. Management services and other revenue increased from $547,000 in 1995 to $727,000 in 1996, representing a 32.9% increase, primarily due to the addition of four managed facilities subsequent to June 30, 1995 and increased other revenue at its existing owned and leased facilities.

Facility operations expense increased from $5.6 million in 1995 to $7.1 million in 1996, representing a 28.0% increase. Substantially all of the increase resulted from the addition of the Carrington Pointe and Vintage facilities. Facility operations expense as a percentage of revenues decreased from 69.5% in 1995 to 63.2% in 1996 due to the higher margins of the Carrington Pointe facility, as well as improved operating results at facilities in operation in both periods.

Facility rents increased from $1.2 million in 1995 to $1.3 million in 1996, representing an 7.7% increase. Substantially all of the increase resulted from the leasing of the Vintage facility commencing January 29, 1996, partially offset by a reduction in rent as a result of the contribution to the Company of condominium interests in the Treemont, Vintage and West Palm Beach facilities on June 1, 1996. Facility rents as a percentage of revenue decreased from 15.2% in 1995 to 11.6% in 1996 due to the higher revenue base of the Carrington Pointe facility, which is an owned facility.

Corporate administrative and general expense increased from $499,000 in 1995 to $678,000 in 1996, an increase of 35.9%. Substantially all of the increase is due to the addition of the Carrington Pointe and Vintage facilities. Corporate administrative and general expense as a percentage of revenue decreased from

6.2% in 1995 to 6.0% in 1996. The Company's facilities were charged a management fee of 6% of total revenues by IHS, except that prior to October 1995, the Company's Waterside facility was charged a management fee of 4.5% of monthly service fee revenue by each of IHS and the minority partner (whose interest was subsequently acquired by IHS in October 1995). The reason for the decrease in corporate administrative and general expense as a percentage of revenues from 1995 to 1996 is that in 1996 the Company paid a fee of 6.0% of total revenues with respect to the Waterside facility compared to a fee of 9.0% of monthly service revenues in the comparable period in 1995. See Note 7 of Notes to Consolidated Financial Statements.

Depreciation and amortization expense increased from $206,000 in 1995 to $480,000 in 1996, representing a 133.1% increase. Of the $274,000 increase, $140,000 resulted from the addition of the Carrington Pointe facility on December 31, 1995, $70,000 resulted from a write-off of software costs in the first quarter of 1996, $57,000 resulted from depreciation of the condominium interests in the Treemont, Vintage and West Palm Beach facilities acquired June 1, 1996 and the remaining $7,000 resulted from depreciation of routine additions of $35,000 partially offset by a $28,000 reduction in depreciation resulting from the write-down of excess carrying value related to the Waterside facility. Depreciation and amortization expense as a percentage of revenue increased from 2.6% in 1995 to 4.2% in 1996 due to the above mentioned reasons.

Earnings before income taxes increased $1,168,000 from $522,000 in 1995 to $1,690,000 in 1996, representing a 223.4% increase. This was primarily due to the acquisition of the Carrington Pointe and Vintage facilities subsequent to June 30, 1995, as well as improved operating results at facilities in operation in both periods.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO THE YEAR ENDED DECEMBER 31, 1994

Revenues increased from $11.6 million in 1994 to $16.3 million in 1995, representing a 39.7% increase. Substantially all of the increase in revenues resulted from the lease of The Shores and Cheyenne Place facilities commencing August 31, 1994 and the addition of The Homestead facility on April 1, 1994. Average occupancy of the Company's owned and leased facilities during the year ended December 31, 1995 was 90.9% as compared to 79.7% during the year ended December 31, 1994. Management

services and other revenue increased from $739,000 in 1994 to $1.1 million in 1995, representing a 55.1% increase, primarily due to the addition of three managed facilities in 1995 and increased other revenue at its existing owned and leased facilities.

Facility operations expense increased from $8.3 million in 1994 to $11.2 million in 1995, representing a 36.2% increase. Substantially all of the increase in facility operations expense resulted from the addition of the Cheyenne Place, The Homestead and The Shores facilities. Facility operations expense as a percentage of revenue decreased from 70.8% of revenues in 1994 to 69.1% of revenues in 1995 due to the improved operating results in 1995 of the two facilities leased and the one facility acquired in 1994.

Facility rents increased from $1.5 million in 1994 to $2.4 million in 1995, representing a 65.8% increase. The increase in rent expense primarily resulted from the two leases entered into in 1994. Facility rents as a percentage of revenues increased from 12.6% in 1994 to 14.9% in 1995 due to the lease of The Shores and Cheyenne Place facilities in 1994.

Corporate administrative and general expense increased from $725,000 in 1994 to $1.0 million in 1995, representing a 38.6% increase. Substantially all of the increase in corporate administrative and general expense resulted from the addition of the Cheyenne Place, The Homestead and The Shores facilities. Corporate administrative and general expenses as a percentage of revenues remained constant in both periods at 6.2% of revenues.

Depreciation and amortization expense increased from $369,000 in 1994 to $414,000 in 1995, representing a 12.4% increase. The increase in depreciation and amortization expense primarily resulted from the addition of The Homestead facility and routine capital additions at other facilities. Depreciation and amortization decreased as a percentage of revenue from 3.2% to 2.6% due to the increase in revenue from the two facilities leased in 1994.

Loss on Impairment of Long-Lived Assets. In 1995, the Company implemented Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121 in connection with IHS' implementation thereof. Through evaluation of the recent financial performance and a recent appraisal of its Waterside facility, the Company estimated the fair value of this facility and determined that the carrying value of certain long-lived assets, including goodwill and buildings and improvements, exceeded their fair value. The excess

carrying value of $5,126,000 was written off and is included in the statement of operations for 1995 as a loss on impairment of long-lived assets. See Notes 1 and 12 of Notes to Consolidated Financial Statements.

Earnings (loss) before income taxes decreased from earnings of $830,000 in 1994 to loss of $3,949,000 in 1995, representing a decrease of 575.7%. This was primarily due to improved operating results at facilities in operation in both periods and facilities acquired subsequent to December 31, 1994 offset by the loss on impairment of long-lived assets.

YEAR ENDED DECEMBER 31, 1994 COMPARED TO THE YEAR ENDED DECEMBER 31, 1993

Revenues increased from $5.2 million in 1993 to $11.6 million in 1994, representing a 122.2% increase. The increase primarily resulted from the addition of the Waterside and West Palm Beach facilities on December 1, 1993 and The Homestead facility on April 1, 1994, and the leasing of the Cheyenne Place and The Shores facilities on August 31, 1994. Management services and other revenue increased from $231,000 in 1993 to $739,000 in 1994, representing a 220.4% increase, primarily due to one additional managed facility in 1994 and increased other revenue at its existing owned and leased facilities.

Facility operations expense increased from $3.5 million in 1993 to $8.3 million in 1994, representing a 138.9% increase. The increase primarily resulted from the addition of the Cheyenne Place, The Homestead, The Shores, Waterside and West Palm Beach facilities. Facility operations expense as a percentage of revenues increased from 66.0% in 1993 to 70.8% in 1994 due to the increased operating expenses incurred to integrate the five new facilities.

Facility rents increased from $856,000 in 1993 to $1.5 million in 1994, representing an increase of 71.3%. The increase primarily resulted from the lease of the Cheyenne Place and The Shores facilities in 1994. Facility rents as a percentage of total revenues decreased from 16.3% in 1993 to 12.6% in 1994, primarily as a result of the addition of The Homestead and Waterside facilities, which are owned facilities.

Corporate administrative and general expense increased from $315,000 in 1993 to $725,000 in 1994, representing an increase of 130.7%. The increase primarily resulted from the addition of the Cheyenne Place, The Homestead, The Shores, Waterside and West Palm Beach facilities. Corporate administrative and general expense as a percentage of revenue increased from 6.0% in 1993 to 6.2% in 1994. The increase primarily resulted from Waterside, which had a higher management fee than the other facilities, being an owned facility for all of 1994 but only one month of 1993.

Depreciation and amortization expense increased from $24,000 in 1993 to $369,000 in 1994, representing a 1,466.8% increase. The increase primarily resulted from the addition of The Homestead, Waterside and West Palm Beach facilities. Depreciation and amortization expense as a percentage of revenue increased from 0.4% to 3.2% due to the addition of these three new facilities.

Earnings before income taxes increased from $590,000 in 1993 to $830,000 in 1994, representing a 40.6% increase. This was primarily due to additional pre-tax income generated at facilities acquired subsequent to December 31, 1993.

LIQUIDITY AND CAPITAL RESOURCES

To date the Company has financed its operations through cash contributions and loans from IHS and cash from operations.

At June 30, 1996, the Company had a working capital deficit of $1.3 million compared to a deficit of $315,000 at December 31, 1995.

The Company has obtained a commitment (the "Financing Commitment") from Health Care Property Investors, Inc. ("HCPI"), a real estate investment trust, to make available to ILC up to $100 million to develop, construct and acquire facilities. No less than $40 million is to be invested in existing facilities ("Existing Facilities") through purchase and lease or sale/leaseback transactions. Remaining funds (up to $60 million) may be invested in new development projects ("New Facilities"). The Company will develop each New Facility pursuant to a separate development agreement with HCPI and will lease each New Facility and financed Existing Facility from HCPI pursuant to a separate lease agreement. Each acquisition, development, lease and ancillary agreement executed pursuant to the Financing Commitment will contain representations and warranties, indemnities, affirmative covenants and conditions precedent customary for real estate investment trust transactions. HCPI's funding of New Facilities is contingent upon the Company's completion of an initial public offering which results in the Company having stockholders'

equity of not less than $55 million. A $200,000 deposit (the "Expense Deposit"), to ensure the payment of HCPI's expenses in the event transactions contemplated pursuant to the Financing Commitment are not completed, was paid upon the Company's execution of the Financing Commitment. The Financing Commitment expires on June 30, 1997.

Each development agreement executed pursuant to the Financing Commitment will require the Company, as developer, to arrange, coordinate and carry out all services necessary to develop each New Facility. The Maximum Cost (as defined) based on an appraisal of Fair Market Value (as defined) and a development budget for each facility will be approved by HCPI and included in the development agreement. Total Construction Cost (as defined) will equal land cost plus total actual construction costs, one percent of Maximum Cost (accrued as a cost by HCPI), all legal costs and fees (including in-house legal costs) incurred in connection with the project, a construction administration fee to be accrued as a cost by HCPI equal to $1,550 per month (subject to reduction) and an allowance for HCPI's cost of money at 1.5% over the Bank of New York prime rate. The cost of overruns, if any, including HCPI's carrying cost on overruns, are to be paid by the Company. HCPI will not be required to pay a Total Construction Cost in excess of Maximum Cost. The Company will guarantee the completion of a New Facility within 12 months and will guarantee to make all payments in excess of Maximum Cost to complete the facility. The Company may include in the Total Construction Cost the amount of any actual development fee paid to an unrelated developer, up to a maximum of 5% of Maximum Cost. IHS has agreed to guaranty certain of the Company's obligations to HCPI in connection with the development of facilities, except that IHS is not required to guaranty such obligations as long as the Company maintains stockholders' equity or net worth in excess of $55 million and the Common Stock is publicly traded on a national securities exchange or the Nasdaq National Market.

HCPI will pay fair market value, based on an appraisal, to purchase an Existing Facility. All leases will be "triple net" (i.e., where the lessee is obligated to pay, in addition to rent, all taxes, repairs and insurance in respect of the facility) and HCPI will have the right to a higher lease rate on facilities located in states that tax real estate investment trust income. The primary term for each lease will be 15 years with two 10 year renewal options at fair market value lease rates. All leases covering facilities financed under the Financing Commitment must be renewed together as a group and not individually.

The base lease rate for Existing Facility leases executed under the Financing Commitment will equal 325 basis points above the 10-year Treasury Note rate published in The Wall Street Journal three business days prior to lease commencement. The base rent under such leases will equal the base lease rate multiplied by the Existing Facility purchase price. The base lease rate for New Facility leases will equal 350 basis points above the 10-year Treasury Note rate published in The Wall Street Journal three business days prior to lease commencement. The base rent under New Facility leases will equal the base lease rate multiplied by the lesser of Total Construction Cost or Maximum Cost. Beginning in the second year of the lease, annual rent will be increased by an amount equal to the annual change in the consumer price index multiplied by the prior year's total rent. In no event will the rent increase be less than the sum of (a) the additional rent paid for the previous year plus (b) one hundred percent of the facility's Gross Revenues (as defined) in excess of Base Revenue (as defined), up to but not exceeding an amount equal to two percent (2%) of the prior year's total rent. In no event will the rent increase represent more than a 5% increase over the prior year's total rent. In addition to the payment of rent and the Expense Deposit, the Company is required to provide an annually renewed letter of credit for each financed facility equal to six months total lease payments to secure acquisition, development and lease obligations (subject to reduction to four months upon completion of an initial public offering which results in the Company having stockholders' equity of not less than $55 million). All leases under the Financing Commitment will be cross-defaulted and cross-collateralized and all leases between HCPI and a subsidiary of the Company will be guaranteed by the Company. The Company will be obligated to reimburse HCPI for certain costs and expenses incurred in connection with transactions completed pursuant to the Financing Commitment. In addition, a non-refundable commitment fee, equal to one percent (1%) of the purchase price of each Existing Facility, will be due and payable at the closing of the acquisition of each Existing Facility.

The Company has also obtained a non-binding term sheet from Capstone Capital Corporation ("Capstone") relating to the availability of up to $40 million in financing through sale/leaseback transactions. An expense deposit of $100,000 is payable by the Company within one business day of the execution of a commitment agreement and a fee equal to 1% of total building cost is payable upon the initial draw on the commitment relating to each facility purchased. As proposed, leases executed with Capstone will have an initial term of 12 to 15 years and

three separate five year extension options. All leases funded under the proposed commitment, however, will have the same initial term and no lease may be extended unless all leases under the commitment are extended. Subject to a minimum rate of 10%, the initial lease rate will be 350 basis points in excess of the yield on U.S. Treasury bills with similar maturities/terms. Lease rates during the first year of each extended period will be based upon fair market rental values. Lease rates will be adjusted annually (except for the first year of each renewal period) in an amount equal to the positive change in the consumer price index; provided, however, in no event will the change be less than 2% or more than 5% of the previous year's lease payment.

All leases under the proposed Capstone commitment will be cross-defaulted and all leases between Capstone and a subsidiary of the Company will be guaranteed by the Company. Each facility lease will contain minimum rent coverage requirements and will require the Company to maintain a minimum net worth of $55 million and minimum rent and interest coverage ratios. Each lease will be "triple-net" and will grant the Company a right of first refusal to purchase the facility from Capstone. The Company will reimburse Capstone for all costs incurred in connection with transactions completed under the proposed commitment and up to $2,000 per year for independent third-party inspections of each facility. Capstone's commitment is subject to completion of an offering of at least 2 million shares of Common Stock by the Company resulting in net proceeds to the Company of at least $25 million. There can be no assurance that the Company will receive a financing commitment from Capstone on these terms, on different terms or at all. Dr. Elkins, the Chairman of the Board of Directors of the Company, is a director of Capstone.

Following this offering, the Company will be dependent on third-party financing for its acquisition and development program. Except for the financing commitments discussed above, the Company has no other arrangements for financing. There can be no assurance that financing for the Company's acquisition and development program will be available to the Company on acceptable terms or at all. Moreover, to the extent the Company acquires facilities that do not generate positive cash flow (after rent expense and/or interest), the Company may be required to seek additional capital for working capital and liquidity purposes. See "Risk Factors -- Need for Substantial Additional Capital."

The Company presently anticipates that it will make capital expenditures of approximately $3 million in 1996 relating to its existing facilities. In addition, the Company will use approximately $12.2 million of the net proceeds of this offering to acquire the Terrace Gardens facility simultaneous with the closing of this offering, and anticipates that it will make capital expenditures of approximately $500,000 with respect to the Cabot Pointe and Terrace Gardens facilities. The Company anticipates that it will spend approximately $9.0 million in 1996 to purchase land for the development of new assisted living facilities. The Company has provided two of its third-party developers lines of credit aggregating $2.0 million. See "Business -- Properties."

IHS has made available to the Company a $75 million revolving credit facility. Borrowings under the facility bear interest at the rate of 14% per annum. All outstanding borrowings, together with all accrued but unpaid interest, are due at the earlier of (i) the closing of an initial public offering by ILC or (ii) June 30, 1998. At June 30, 1996 and August 15, 1996, $3.4 million and $6.7 million, respectively, were outstanding under this facility. The Company intends to use a portion of the proceeds of this offering to repay all amounts outstanding under the facility. See "Use of Proceeds." Borrowings under this facility were used to finance the Company's development activities.

The Company currently estimates that the net proceeds to be received by it from this offering, together with financing commitments and sale/leaseback and mortgage financing that it anticipates will be available, will be sufficient to fund its acquisition and development program and operations for the next 12 months. There can be no assurance, however, that the Company will not be required to seek additional capital earlier. Additional financing will be necessary to enable the Company to respond to changing economic conditions or to effect further expansion. There can be no assurance that the Company will generate sufficient cash flow during such time to fund its future working capital, rent, debt service requirements or growth. In such event, the Company would have to seek additional financing through debt or equity offerings, bank borrowings, sale/leaseback transactions or otherwise, and there can be no assurance that such financing will be available on acceptable terms or at all. See "Risk Factors -- Need for Substantial Additional Funds."

OVERVIEW

The Company provides assisted living and related services to the private pay elderly market. Assisted living facilities combine housing, personalized support and healthcare services in a cost-effective, non-institutional setting designed to address the individual needs of the elderly who need regular assistance with activities of daily living, such as eating, bathing, dressing and personal hygiene, but who do not require the level of healthcare provided in a skilled nursing facility. The Company currently operates 19 assisted living and other senior housing facilities containing 1,812 units in seven states. The 1,812 units operated by the Company consist of 1,187 assisted living units (including 172 units devoted to Alzheimer's and dementia care), 544 independent living units for persons who require occasional assistance with the activities of daily living and 81 skilled nursing units. The Company is pursuing a strategy of rapid growth through development and acquisition, and intends to acquire, develop or obtain agreements to manage approximately 60 to 75 assisted living facilities per year in each of the next three years. As part of this strategy, ILC is currently developing 33 assisted living facilities, of which 24 are scheduled to open during 1997, has entered into an agreement to acquire one facility containing 258 units simultaneous with the closing of the offering and is evaluating numerous additional acquisition opportunities. All of ILC's revenues from its owned and leased facilities in 1995 and the first six months of 1996 were derived from private pay sources.

The Company's objective is to expand its operations to become a leading provider of high-quality, affordable assisted living services. Key elements of the Company's strategy to achieve this goal are to: (i) provide high-quality healthcare oriented services; (ii) grow rapidly through development and acquisition of additional assisted living facilities; (iii) utilize a flexible, cost-effective approach for the development of new assisted living facilities; and (iv) target a broad segment of the private-pay population.

The assisted living industry is highly fragmented and characterized by numerous small operators whose scope of services vary widely. Annual expenditures for assisted living services were estimated to be $10 to 12 billion in 1995. The Company believes that factors contributing to the growth of the assisted living industry include: (i) the aging of the U.S. population; (ii) the increasing affluence of the elderly and their families; (iii) the decreasing availability of family care in the home; (iv) consumer preference for greater independence and a less institutional setting; (v) the increasing emphasis by both federal and state governments and private insurers on containing long-term care costs; and (vi) the reduced availability of skilled nursing beds for less medically intensive residents. The Company believes that the foregoing factors, combined with the fragmented nature of the industry and the inexperience and lack of resources of many operators, have created a significant opportunity for ILC to become a leading provider of high-quality, affordable assisted living services.

The Company believes that its approach to the development of new assisted living facilities differs from that of many other operators. Unlike many assisted living operators, the Company intends to rely primarily on a limited number of third-party developers, rather than maintain a large internal development staff. ILC currently has relationships with three developers, which developers are responsible for 29 of the 33 facilities currently under development by the Company. The Company has, together with these developers, developed three flexible and expandable prototype building designs. The flexibility feature is expected to allow the facility's assisted living and Alzheimer's bed allotment to be quickly and cost-effectively reconfigured based on changing market demand. The expandability feature is expected to allow the prototype buildings to be easily and cost-effectively expanded with little or no disruption to current operations. The Company believes its development approach will offer many advantages, including better construction quality control, lower architectural and engineering fees, bulk purchasing of materials and fixtures and faster development and construction schedules.

BACKGROUND

Assisted living is quickly emerging as an important component in the continuum of care within the healthcare delivery system and can be viewed as falling in the middle of the elder care continuum, with home-based care on one end and skilled nursing facilities and acute care hospitals on the other. It is a

cost-effective setting for the elderly who do not require the higher level of medical care provided by skilled nursing facilities but cannot live independently because of physical frailties or cognitive impairments. Assisted living facilities combine housing, personalized support services and healthcare in a non-institutional setting designed to address the individual needs of the elderly who need regular assistance with certain activities of daily living.

The assisted living industry is highly fragmented and characterized by numerous small operators whose scope of services vary widely from small "board and care" facilities (generally 12 or fewer residents) with little or no services to large facilities offering a full array of personal care services. In comparison to the nursing home and other healthcare industries, the assisted living industry is currently subject to little government regulation. The Company expects government regulation to increase, however, as more assisted living facilities begin to expand the type and amount of healthcare services they offer and states continue to expand Medicaid funding of assisted living as a cost-effective alternative to skilled nursing facilities. The Company believes that because of increased governmental regulation of the industry, a transformation of the industry from housing and personal care services to more healthcare-oriented services, cost containment pressures, the growth of healthcare networks and the inexperience and limited capital resources of many operators, the highly-fragmented assisted living industry will consolidate in the near future. According to the U.S. Health Care Financing Administration, annual expenditures for assisted living services were estimated to be approximately $10 to $12 billion in 1995. Private pay services account for the majority of payments; however, in some states, Medicaid funds are available for assisted living, although no funding is currently available from the federal Medicare program.

The Company believes that assisted living is one of the fastest growing segments of elder care, benefiting from the following significant trends:

Aging Population. The Company's target market, comprised of seniors aged 75 and older, is one of the fastest growing segments of the U.S. population. According to the U.S. Bureau of the Census, this population is expected to increase 28% from approximately 13 million in 1990 to approximately 17 million by 2000, as compared to the total U.S. population, which is expected to increase by approximately 11% during the same period. According to the U.S. General Accounting Office, in 1993 more than 7 million people in the U.S. needed assistance with activities of daily living, and this number is expected to double by 2020. It is further estimated that approximately 57% of the population of seniors over the age of 85 need assistance with activities of daily living and more than one-half of such seniors develop Alzheimer's disease or other forms of dementia.

Increasing Financial Net Worth. As the ratio of elderly in need of assistance has increased, so too has the number of elderly able to afford assisted living. According to U.S. Bureau of the Census data, the median net worth of families in which the head of the family is age 75 or older has increased from $55,178 in 1984 to $61,491 in 1988 to $76,541 in 1991.

Changing Family Role. Historically, the family has been the primary provider of care to the elderly. The Company believes, however, that the increased percentage of women in the workforce, the growing number of two income families and the increased mobility of society are reducing the family's role as the traditional caregiver for the elderly, which will make it necessary for many of the elderly to look outside the family for assistance as they age.

Consumer Preference. The Company believes that assisted living is increasingly becoming the setting preferred by prospective residents and their families in which to care for the elderly. Assisted living offers residents greater independence and allows them to "age in place" in a residential setting, which the Company believes results in a higher quality of life than that experienced in more institutional or clinical settings, such as skilled nursing facilities.

Cost-Containment Pressures. In response to rapidly rising healthcare costs, both governmental and private-pay sources have adopted cost-containment measures that have reduced admissions and encouraged reduced lengths of stays in hospitals and skilled nursing facilities. As a result, hospitals are discharging patients earlier and referring seniors to skilled nursing facilities where the cost of

providing care is lower, and skilled nursing facility operators continue to focus on expanding services to higher acuity patients. As a result, the supply of skilled nursing facility beds is increasingly being filled by patients with higher acuity needs paying higher fees, leaving little excess capacity for seniors needing a lower level of care. The Company believes that

this trend creates a significant opportunity for assisted living facilities, as states, as well as long-term care insurance companies and managed care companies, are increasingly focusing on assisted living as a cost-effective alternative to skilled nursing facilities. Based on industry data, the average cost for assisted living facilities is approximately $24,000 per year as compared to an average cost of approximately $35,000 per year for skilled nursing facilities.

BUSINESS STRATEGY

The Company's objective is to expand its operations to become a leading provider of high-quality, affordable assisted living services. Key elements of the Company's strategy to achieve this goal are to:

Provide High-Quality, Healthcare-Oriented Services. In addition to providing a broad range of assistance with the activities of daily living and offering special care programs to residents suffering from Alzheimer's disease or other forms of dementia, the Company focuses on meeting the healthcare needs of its residents to the maximum extent permitted by law, thereby enabling its residents to age in place. As a result, residents are generally able to remain at ILC facilities until they develop medical conditions requiring institutional care available only in a skilled nursing facility or an acute care hospital. Where allowed by law, the Company's assisted living facilities offer care to residents who are incontinent, mild to moderately confused, convalescing, nonambulatory, diabetic, oxygen dependent or similarly dependent. All of the Company's assisted living facilities (excluding its senior housing and congregate care facilities) employ licensed nurses. The Company ensures that all its facilities are appropriately staffed to provide its residents with high-quality personalized care and services.

Grow Rapidly Through Development, Acquisition and Facility Expansion. The Company intends to pursue rapid growth over the next three years to benefit from the anticipated increased market demand for assisted living services and the expected industry consolidation. The Company intends to acquire, develop or obtain agreements to manage approximately 60 to 75 assisted living facilities per year in each of the next three years. The Company is currently developing 33 assisted living facilities, of which 24 are scheduled to open in 1997. Management has extensive contacts in the senior housing and healthcare industries, and the Company is frequently presented with opportunities to acquire, develop or manage assisted living facilities. The Company expects that industry consolidation will result in increased future acquisition opportunities. In addition, as demand increases in its existing markets, the Company plans to grow by expanding the capacity of existing buildings.

Utilize Flexible, Cost-Effective Development Approach. The Company believes that its development approach will allow it to quickly and cost-effectively develop new assisted living facilities. The Company intends to rely primarily on a limited number of third-party developers, rather than maintain a large internal development staff, to develop assisted living facilities. The Company currently has relationships with three developers, with which the Company has developed three flexible and expandable prototype building designs: a 35 unit/40 bed pure assisted living facility, a 40 unit/40 bed pure Alzheimer's facility and an 80 unit/92 bed combination assisted living/Alzheimer's facility. Flexibility, which will allow the Company to respond to changing utilization patterns and service needs, and expandability, which will allow the Company to cost-effectively respond to increased market demand, are key features of the prototype designs. The Company believes the use of prototype designs and a small number of developers will offer many advantages to the development process, including better construction quality control, lower architectural and engineering fees, bulk purchasing of materials and fixtures at a lower cost, and faster development and construction schedules.

Target Broad Segment of Private-Pay Population. The Company's target markets are generally second or third tier cities or suburbs of major cities. The target population in these markets is private-pay seniors over the age of 75 with annual incomes of at least $25,000. This mass-market

approach enables the Company to evaluate a multitude of markets and be selective in acquiring and developing properties. The Company believes this approach allows it to appeal to the largest segment of the elderly population, the middle to upper-middle income group. The Company believes that by targeting this population segment, it will be well-positioned to achieve and sustain high occupancy rates.

DEVELOPMENT AND ACQUISITION

The Company targets areas where there is a need for assisted living facilities based on demographics and market studies. In selecting geographic markets for potential expansion, the Company utilizes individual market studies which consider such factors as population, income levels, economic climate and competitive environment. The Company generally seeks to select assisted-living facility locations that (a) are second or third tier cities or suburbs of major cities, (b) have residents who generally enjoy mid-level incomes compared to incomes generally realized in the region, (c) have a regulatory climate that the Company considers favorable toward development and (d) are established and economically stable compared to newer, faster-growing areas. The Company has found that locations with these characteristics generally have a receptive population of seniors who desire and can afford the services offered in the Company's assisted living facilities.

Development. The Company currently expects to open approximately 25 to 35 newly developed assisted living facilities per year in each of the next three years. The Company is currently pursuing the development of 33 new assisted living facilities, of which 24 are scheduled to open in 1997. The Company intends to rely primarily on a limited number of third-party developers, rather than maintain a large internal development staff, to develop assisted living facilities, and currently has relationships with three developers. The Company maintains control over the entire development process by retaining authority for site selection, prototype design, pricing, development and construction schedules, and quality of workmanship. See "-- Properties -- Development."

The principal stages in the development process are (i) site selection and contract signing, (ii) zoning and site plan approval, (iii) architectural planning and design and (iv) construction and licensure. Once a market has been identified, site selection and contract signing typically take three months. Zoning and site plan approval generally take one to three months. The Company anticipates that facility construction will generally take six to nine months. The Company's use of prototype facilities facilitates architectural planning and design. After a facility receives a certificate of occupancy and appropriate licenses, residents usually begin to move in immediately. The Company's experience indicates that new facilities typically reach a stable level of occupancy of over 90% within six to 12 months of opening, but there can be no assurance that these results will be achieved in new facilities. The Company anticipates that the total capitalized cost to develop, construct and open a prototype facility, including land acquisition and construction costs, will be approximately $72,000 per unit, although the cost of any particular facility may vary considerably based on a variety of site-specific factors. See "Risk Factors -- Limited Development Experience; Development Delays and Cost Overruns."

The Company is presented with land sites by independent brokers, developers, healthcare organizations and financial institutions. The third-party developers with which the Company has relationships are also utilized to locate suitable sites in selected regions of the country. If a site meets the Company's general market criteria, then the Company will order a preliminary market study by an independent third party. If the market study indicates that the site meets its geographic selection criteria, the Company will then conduct a more in-depth analysis of the market, in conjunction with developers, to ensure there is a demonstrated need for assisted living services and that the site is appropriate in terms of location, size and zoning. If the market and site meet all of the Company's selection criteria, the property is purchased for development.

The Company has, together with its developers, developed three flexible and expandable prototype building designs: a 35 unit/40 bed pure assisted living facility, a 40 unit/40 bed pure Alzheimer's facility and an 80 unit/92 bed combination assisted living/Alzheimer's facility. Flexibility, which will allow the Company to respond to changing utilization patterns and service needs, and expandability, which will allow the Company to cost-effectively respond to increased market demand, are key features of the

prototype design. The flexibility feature allows the facility to quickly and cost effectively reconfigure its assisted living and Alzheimer's bed allotment based on changing market demand. The expandability feature allows the prototype buildings to be easily and cost-effectively expanded with little or no disruption to current operations. Facility expansion is often more cost-effective than constructing or acquiring a new facility because of lower incremental capital, operating and fixed costs. The Company believes that the use of a small number of developers working with prototype designs will allow the Company to: (a) save time and money on architectural and engineering work, because only minor modifications will be required at each location to site adapt the prototype; (b) ensure better construction quality control, because the Company's third-party developers will gain experience by constructing the same facility design, rather than a different facility design, at each site; and (c) save time and money with bulk purchasing of materials and fixtures at a lower cost, because each facility will, for example, utilize the same kitchen

equipment and windows. In addition, once a development site is identified, the Company will be able to move quickly to obtain zoning approvals, since only limited architectural and engineering work will be required. All of these factors should contribute to faster and cost-effective development and construction schedules. See "-- Business Strategy."

Acquisition. The Company acquired one facility in August 1996, which the Company expects to sell to, and lease back from, HCPI in September 1996. In addition, the Company has entered into a definitive agreement to acquire one additional assisted living facility, which acquisition the Company anticipates will be consummated simultaneous with the closing of this offering. There can be no assurance the acquisition or the sale/leaseback transaction will be consummated when anticipated or at all. The Company seeks to acquire individual or groups of assisted living facilities from smaller owners and operators in its targeted markets. In evaluating possible acquisitions, the Company considers (i) the location, construction quality, condition and design of the facility, (ii) the ability to expand the facility, (iii) the current and projected cash flow of the facility and the anticipated ability to increase revenue through rent and occupancy increases and additional assisted living services and (iv) the ability to acquire the facility below replacement cost. The Company's management has extensive contacts in the senior housing and healthcare industries, and the Company is frequently presented with opportunities to acquire, develop or manage assisted living facilities. In addition, the Company believes that consolidation in the assisted living industry will offer substantial opportunities to acquire assisted living facilities or other facilities that can be repositioned as assisted living facilities. See "Risk Factors -- Difficulties of Integrating Acquisitions" and "-- Uncertainty of the Proposed Acquisition; Difficulties of Integrating the Proposed Acquisition."

Although the Company intends to focus its efforts primarily on the development and acquisition, directly or through long-term operating leases, of additional assisted living facilities, it may in certain cases also target additional third-party management contracts as an interim step to acquisition of facilities. Under a typical management agreement, the Company receives a percentage of the gross operating revenues of the facility and has a right of first refusal to acquire the facility. See "-- Properties -- Management Agreements."

SERVICES

The Company's assisted living facilities offer residents a supportive, "home-like" setting and assistance with activities of daily living. Residents of the Company's facilities are typically unable to live alone, but do not require the 24-hour nursing care provided in skilled nursing facilities. Services provided to the Company's residents are designed to respond to their individual needs and to improve their quality of life, are available 24 hours a day to meet resident needs, and generally include three meals per day, housekeeping and groundskeeping and building maintenance services. Available support services include nursing care and health-related services, social and recreational services, transportation and special services (such as banking and shopping). Personal services include bathing, dressing, personal hygiene, grooming, ambulating and eating assistance. Health-related services, which are made available and provided according to the resident's individual needs and in accordance with state regulatory requirements, may include assistance with taking medication, skin care and injections, as well as healthcare monitoring. By providing programs that are designed to offer residents a range of service options as their needs change, the Company seeks to achieve greater continuity of care, enabling seniors to age in place and thereby maintain their residency for a longer time period.

Clinical Assessment. Each resident is clinically assessed upon admission to determine his/her health status including functional abilities, need for personal care services and assistance with the activities of daily living (ADL's) as well as likes and dislikes. The goal of the clinical assessment is to determine the care needs of residents as well as their lifestyle preferences. A current physician's report is also utilized to further ascertain the health status and needs of the resident. From these assessments a plan of care is developed for each resident to help ensure that all staff who render care and services meet the specific needs and preferences of each resident. Residents are reassessed periodically and when there is a significant change in a resident's condition to be sure the care plan reflects their current needs. The care plan, as the document which reflects the needs of the resident, is the basis for determining the monthly charges for care and services.

Healthcare Services. The Company fosters wellness by offering health screenings such as blood pressure checks, periodic special services such as influenza inoculations, chronic disease management (such as diabetes with its attendant blood glucose monitoring), dietary and similar programs as well as

ongoing exercise and fitness classes. Classes are given by healthcare professionals to keep residents informed about disease management.

Regulations differ by state regarding the type of care that can be rendered as well as the personnel allowed to provide such care. The Company utilizes licensed nurses, certified and/or trained staff to meet the healthcare needs of its residents. Staff administer or assist with medications, observe and intervene as the health status of residents change, and provide assistance and care to enable residents to perform the activities of daily living: dressing, bathing, grooming, toileting, ambulating and the like. Residents who are incontinent, mild to moderately confused, convalescing, nonambulatory, diabetic, oxygen dependent or similarly dependent are cared for where allowed by law. Hospice care is offered in many of the Company's facilities, as are special programs such as post-plastic surgery recuperation, stroke recovery and intensive rehabilitation. Dietary programs, nutritional support and special retraining programs are also offered by the Company.

The Company's facilities provide rehabilitation services, including physical therapy, speech and language pathology and occupational therapy, audiology, pharmacy and physician services, as well as podiatry, dentistry and other professional services. These specialized healthcare services are generally provided to the residents by third-party providers, who are reimbursed by the resident or a third-party payor (such as Medicare or Medicaid) or, in certain cases, by the staff of the facility where permitted by state law. The Company's facilities also provide transportation services for residents to visit physicians and other professionals in the surrounding areas.

Alzheimer's and Dementia Care. Certain of the Company's facilities contain a special unit to service the needs of residents with Alzheimer's disease, dementia and other cognitive impairments. These special needs units are located in a separate area of the facility and have their own dining facilities, resident lounge areas and specially trained staff. This physical separation of the special needs unit enables residents to receive the specialized care they require with a minimum of disruption to other residents. The areas are designed to allow residents the freedom to ambulate as they wish while keeping them safely contained within an alarmed area. Programming for a minimum of 12 hours per day keeps these special need residents channeled into meaningful activity. Special nutritional programs are used to help assure caloric intake is maintained in residents whose constant movement increases their caloric expenditure. Family support groups meet regularly with the families of these residents.

Adult Day Care. Some of the Company's facilities offer adult day care services for the mentally and/or physically frail. The services are offered up to six days per week, 12 hours per day. Many of the day care attendees eventually become permanent residents at the facility. Residents spend the day engaged in meaningful activities and socialize with other residents and staff. Healthcare needs are monitored by staff and medication assistance is available. Assistance with activities of daily living, as well as meals and nutritious snacks, are also provided. Day care offers families the ability to continue employment despite caregiving responsibilities and also offers residents an opportunity to leave their home and interact with their peers.

Respite Care. The Company's facilities accept residents for short term placement (several days to several months) to accommodate their or their family's need for placement, either while the family is on

vacation or is otherwise absent or because the resident cannot stay alone while convalescing from illness or injury. Many residents are frequent returnees and often eventually become permanent residents at the facility.

OPERATIONS

The Company offers a broad range of assisted living services and an environment in which residents can age in place in an effort to retain residents over longer periods as they become increasingly frail. The Company continually assesses and monitors the health needs and desires of its residents and periodically adjusts the level and frequency of care and services provided to such residents to meet their increasing needs. The Company's multi-tiered rate structure for the services it provides is based upon the acuity level of, or level of services needed by, each resident. Specialized healthcare services for those residents requiring 24-hour supervision or more extensive assistance with activities of daily living is provided to the residents by third-party providers, who are reimbursed by the resident or a third-party payor (such as Medicare or Medicaid) or, in certain cases, by the staff of the facility where permitted by state law. In order to meet the evolving needs of its residents as they age in place, the Company expects to continually expand the range of care and services offered at its residences. In the future, the Company may elect to provide these services directly using its own skilled employees. In the event

that a resident's acuity reaches a level such that the Company is unable to meet such resident's needs, the Company maintains relationships with local hospitals and skilled nursing facilities to facilitate a transfer of the resident.

Marketing. The Company's marketing strategy is designed to integrate its assisted living facilities into the continuum of healthcare providers in the geographic markets in which it operates. Thus, the Company seeks to establish relationships with local hospitals (including through joint marketing efforts, where appropriate) and home healthcare agencies, alliances with visiting nurse associations and, on a more limited basis, priority transfer agreements with local skilled nursing facilities. The Company believes this marketing strategy benefits its residents as well as strengthens and expands the Company's network of referral sources.

The Company begins premarketing its facilities up to six months in advance of opening so that, by the time the facility opens, referral sources, including professionals in the community, hospitals and physicians, will be well familiarized with the care and services provided. Age and income qualified seniors are recipients of target marketing efforts as are their children. The Company's goal is to open a new facility with a substantial number of residents ready to move in. After opening, the Company continues its marketing efforts to attain and then maintain full occupancy.

The Company seeks to position its facilities as the "senior resource center" in each of its markets; thus when the public thinks of care and/or services for the elderly they think of the ILC facility. Each facility offers its physical plant for classes, meetings, social events, etc., to the surrounding city in order to foster interdependence. The Company also intends to focus on selling the care and services component of its facilities to those seniors who live in the surrounding area.

Staffing. The Company ensures that all its facilities are appropriately staffed with well-trained professionals to provide its residents with high-quality personalized care and services. The day-to-day operations of each facility, including quality of care and financial performance, are overseen by an Executive Director trained in the Company's operating philosophy, policies and procedures. A Healthcare Coordinator, who is a licensed nurse, oversees the day-to-day care of residents and employees providing services to residents. Other key facility employees include a Director of Dining Services, Activities Director, Maintenance Director and Marketing Director.

Administration. The Company's corporate structure has been designed to provide appropriate levels of support to, and oversight of, the operating facilities. The Company's philosophy is to allow the facility administrators enough autonomy and flexibility to expeditiously adjust operations to meet the needs of local and changing market conditions while at the same time holding them accountable to established quality and financial performance criteria.

In anticipation of its rapid development plans, the Company has made a significant investment in recruiting and developing a management team with extensive experience in the post-acute care, sub-acute care, long-term care and assisted living industries. The Company believes that the depth and

experience of its management team positions the Company to effectively manage its growth plans and the increasing government regulation of assisted living facilities which the Company anticipates. Additionally, the Company is developing its infrastructure to manage its anticipated growth. Key infrastructure components include standardized policies and procedures, computer systems, management information systems, staff training and education programs and staff recruitment and retention systems. See "Management."

The Company employs an integrated structure of management and financial systems and controls in order to contain costs and maximize operating efficiency. The Company provides management support services to each of its residential facilities, including establishment of operating standards, recruiting, training and financial and accounting services. IHS has agreed to provide resident billing, occupancy, accounts payable and payroll information services to the Company until the Company has implemented its own MIS and accounting systems, which the Company anticipates will occur in the fourth quarter of 1996. See "Certain Transactions." In addition, the Company believes it can benefit from economies of scale by centralizing certain functions such as purchases of supplies and equipment, employee training and certain sales and marketing activities. The Company has established reporting and monitoring systems which allow early detection of deviations to allow rapid correction.

Service Revenue Sources. The Company currently and for the foreseeable future expects to rely primarily on its residents' ability to pay the Company's charges from their own or familial resources. Although care in an assisted living facility is typically less expensive than in a skilled nursing facility, the Company believes generally only seniors with income or assets meeting or exceeding the regional median will be able to afford to reside in the Company's

facilities. Inflation or other circumstances that adversely affect seniors' ability to pay for services such as those provided by the Company could have an adverse effect on the Company's business or operations. Furthermore, the federal government does not currently provide any reimbursement for the type of assisted living services provided by the Company. Although some states have reimbursement programs in place, in many cases the level of reimbursement is insufficient to cover the costs of delivering the level of care that the Company currently provides. Except for the Treyton Oak Towers' assisted living facility managed by the Company (which is 77% private pay), all of the revenues from the Company's remaining assisted living facilities were derived from private-pay sources. There can be no assurance, however, that the Company will continue its private-pay mix or that it will not in the future become more dependent on governmental reimbursement programs.

PROPERTIES

Existing Facilities. The Company currently operates 19 assisted living facilities in seven states, containing 1,812 units. Seven of the facilities are owned, four are leased and the remaining eight are managed. The Company anticipates that it will sell one of the owned facilities to, and lease it back from, HCPI in September 1996, although there can be no assurance the sale/leaseback transaction will be consummated as anticipated or at all. The Company's existing facilities consist of assisted living facilities, continuing care retirement communities, congregate care facilities and senior housing. Several of the Company's facilities have specially designed wings for residents with Alzheimer's disease, and several offer adult day care services. The Company believes that the physical configuration of its facilities, combined with its level of service, contributes to resident satisfaction and allows seniors residing at the Company's facilities to maintain an appropriate level of autonomy.

The table below summarizes certain information regarding the Company's existing facilities:

<TABLE>
<CAPTION>

FACILITY	LOCATION	OPERATIONS COMMENCED(1)	UNITS(2)	BEDS	SERVICES OFFERED(3)	STATUS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CALIFORNIA						
Beth Avot	Santa Monica	8/95	34	34	ALZ,AL	Managed
Carrington Pointe	Fresno	5/90	172	181	C,AL	Owned
Claremont Senior Apts	Clovis	2/94	72	120	SH	Managed
Claremont II	Clovis	10/95	72	120	SH	Managed
Elim Place	Sangar	2/96	24	49	AL,ALZ	Managed
Hallmark -- Bakersfield	Bakersfield	1/93	51	52	AL	Managed
Hallmark -- Palm Springs	Palm Springs	1/93	46	47	AL	Managed
Villa Alamar	Santa Barbara	11/95	30	31	ALZ,AL	Managed
COLORADO						
Cheyenne Place Retirement	Colorado Springs	9/94	95	106	C	Leased
FLORIDA						
Cabot Pointe((4))	Bradenton	8/96	35	56	ALZ	Owned
The Shores((5))	Bradenton	9/94	260	287	CCRC,ALZ	Leased
Waterside Retirement Estates	Sarasota	12/93	164	201	CCRC	Owned
West Palm Beach Retirement((6))	West Palm Beach	12/93	34	38	AL	Owned
KANSAS						
Homestead of Garden City	Garden City	7/96	35	46	AL	Leased
Homestead of Wichita	Wichita	7/96	35	46	AL	Leased
KENTUCKY						
Treyton Oak Towers((7))	Louisville	3/93	267	290	CCRC	Managed
MARYLAND						
The Homestead((8))	Denton	12/92	50	50	AL,ADC(42)	Owned
TEXAS						

Treemont Retirement Community((6))	Dallas	2/89	231	251	CCRC,ALZ,ADC(25)	Owned
Vintage Retirement Community((6)(9))	Denton	4/95	105	111	C,AL	Owned

(1) Represents date operations commenced by IHS for facilities operated prior to November 1995. See "Company History."

(2) A unit is a single- or double-occupancy residential living space, typically an apartment or studio.

(3) ADC = Adult Day Care; AL = Assisted Living; ALZ = Alzheimer's/Dementia Care; C = Congregate; CCRC = Continuing Care Retirement Community; and SH = Senior Housing. Number of residents served in Adult Day Care is listed next to ADC.

o Assisted Living Facilities are typically designed for the frail and/or cognitively impaired elderly, with staff personnel and programs that assist residents with personalized support services. Meals are served in a central dining room, and staff personnel provide limited medical services, such as medication administration and physical rehabilitation.

o Continuing Care Retirement Communities are retirement complexes providing a full continuum of care on a single campus, including congregate care units for those residents still able to adequately care for themselves, assisted living facilities for those residents requiring assistance with activities of daily living, and skilled nursing units for residents who require full-time nursing care or supervision.

o Congregate Care Facilities are typically similar to senior housing, except they generally provide meals in a common dining room, housekeeping, laundry, transportation and emergency response. Medical care is provided by third-party providers as required.

o Senior Housing is typically a multifamily complex catering to senior citizens. These facilities typically offer limited services, such as transportation and security, and arrange for healthcare services as required.

See "--Services."

(4) The Company anticipates that it will sell this facility to, and lease it back from, HCPI in a sale/leaseback transaction which is scheduled to close in September 1996. There can be no assurance this transaction will occur as anticipated or at all.

(5) Includes 21 skilled nursing beds.

(6) The Company owns a condominium interest in the assisted living and related services portion of this facility; the remaining condominium interest in the facility, which consists of a skilled nursing facility, is owned by IHS. The Company is prohibited from including a segregated and secured Alzheimer's ward in its portion of these facilities. IHS provides certain services to these facilities. The Company cannot transfer its condominium interest without the prior consent of IHS. The IHS facility in which the Treemont facility is located is subject to a mortgage. Should IHS default on its obligations under the mortgage, the lender could foreclose on the mortgage, which could materially adversely affect the Company's business, results of operations and financial condition. See "Certain Transactions."

(7) Includes 60 skilled nursing beds.

(8) IHS managed the facility from December 1992 until its purchase by IHS in March 1994.

(9) IHS managed the facility from April 1995 until its purchase by IHS in January 1996.

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Management Agreements. The Company currently manages eight assisted living facilities with an aggregate of 621 units. The Company is responsible for providing all personnel, marketing, nursing, resident care and dietary services, accounting and data processing reports and services for these facilities at the facility owner's expense. The facility owner is also obligated to pay for all required capital expenditures. The Company manages these facilities in the same manner as the facilities it owns or leases, and provides the same assisted living services as are provided in its owned or leased facilities.

The Company receives a management fee for its services which generally ranges

from 4% to 5% of gross revenues of the assisted living facility. Certain management agreements also provide the Company with an incentive fee based on the amount of the facility's operating income that exceeds a target. The management agreements generally have an initial term of one to five years, with the right to renew under certain circumstances. The management agreements expire at various times between October 1996 and November 2000, although all can be terminated earlier under certain circumstances. Certain of the management agreement's provide the Company with a right of first refusal in respect of the sale of each managed facility. The Company believes that management agreements are a cost-effective way to test new markets without having to make the capital outlay necessary to acquire or develop a facility.

Proposed Acquisition. The Company has entered into a definitive agreement to acquire ownership of the Terrace Gardens facility, a 258 unit/342 bed assisted living and senior housing facility which also includes a 100 bed nursing facility. The acquisition is expected to close simultaneous with the closing of this offering, and the Company intends to use a portion of the proceeds of this offering to pay the $12.2 million purchase price for the facility. There can be no assurance that the acquisition will close as scheduled or at all. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Development. The Company intends to develop assisted living facilities generally ranging in size from 32 to 80 units, consisting of an aggregate of approximately 23,000 to 54,000 square feet, which are located on sites typically ranging from 2.5 to 5 acres. Unit size is expected to range from 325 to 500 square feet. The Company estimates that the development cost of most of its assisted living facilities will generally range from approximately $68,000 to $75,000 per unit, depending on local variations in land and construction costs, with an overall average development cost of approximately $72,000 per unit. The Company estimates that it will require approximately six months from the date of land acquisition to develop its 40 unit facilities and approximately nine months from the date of land acquisition to develop its 80 unit facilities. The Company is currently pursuing the development of 33 assisted living facilities, of which 24 are scheduled to open in 1997. Because, however, of uncertainties associated with development of assisted living facilities, including zoning and other governmental limitations, not all of the facilities currently under development may in fact be developed, and there can be no assurance that the Company will be successful in meeting scheduled opening dates for the facilities which are developed. See "Risk Factors -- Limited Development Experience; Development Delays and Cost Overruns."

The table below summarizes certain information regarding the facilities currently under development:

LOCATION	SCHEDULED OPENING	UNITS(1)	BEDS	SERVICES TO BE OFFERED(2)	FACILITY STATUS(3)
CALIFORNIA(4)					
Bakersfield	Q1/97	120	120	SH	Z
Hemet	Q1/98	40	40	ALZ	D
Merced	Q1/98	40	40	ALZ	D
San Diego	Q2/97	92	92	AL,ALZ	D
San Bernardino	Q4/97	80	92	AL,ALZ	Z
Yorba Linda	Q4/97	80	92	AL,ALZ	Z
COLORADO(4)					
Colorado Springs	Q1/98	80	92	AL,ALZ	D
ILLINOIS(4)					
Barrington	Q1/98	80	92	AL,ALZ	D
KANSAS(5)					
Hutchinson	Q4/97	35	40	AL	Z
Leavenworth	Q1/97	35	40	AL	Z
Manhattan	Q1/97	35	40	AL	Z
LOUISIANA(4)					
Alexandria	Q2/97	80	92	AL,ALZ	D
Baton Rouge	Q2/97	80	92	AL,ALZ	D
Baton Rouge	Q3/97	80	92	AL,ALZ	D
Bossier City	Q3/97	80	92	AL,ALZ	D
Lafayette	Q3/97	80	92	AL,ALZ	D

Lake Charles	Q3/97	80	92	AL,ALZ	D
NEBRASKA(5)					
Columbus	Q4/97	35	40	AL	Z
Fremont	Q2/97	35	40	AL	Z
Grand Island	Q2/97	35	40	AL	Z
Hastings	Q3/97	35	40	AL	Z
Kearney	Q2/97	35	40	AL	Z
Norfolk	Q2/97	35	40	AL	Z
TEXAS(4)					
Bedford/Colleyville	Q1/98	40	40	ALZ	D
Dallas	Q1/98	80	92	AL,ALZ	D
Ft. Worth	Q1/98	80	92	AL,ALZ	D
Grand Prairie	Q3/97	80	92	AL,ALZ	Z
Henderson	Q2/97	40	40	ALZ	D
New Braunfels	Q1/98	80	92	AL,ALZ	D
San Antonio	Q1/98	80	92	AL,ALZ	D
San Antonio	Q2/97	80	92	AL,ALZ	Z
San Antonio	Q4/97	40	40	ALZ	D
Southlake	Q3/97	80	92	AL,ALZ	Z

(1) A unit is a single- or double-occupancy residential living space, typically an apartment or studio.

(2) AL = Assisted Living; ALZ = Alzheimer's/Dementia Care; and SH = Senior Housing. See "-- Services."

(3) "Development" means that development activities, such as site surveys, preparation of architectural plans or initiation of zoning changes, have commenced (but construction has not commenced). "Construction" means that construction activities, such as ground-breaking activities, exterior construction or interior build-out, have commenced. "Zoning" means that the zoning process has been completed or is not applicable.

(4) The Company expects to finance these developments through sale/leaseback or mortgage financing.

(5) The Company expects to lease these facilities from the developer.

The Company currently has relationships with three developers relating to 29 of the 33 assisted living facilities currently under development. Two of these developers are developing, in the aggregate, 25 facilities on a turn-key basis, of which 20 facilities are scheduled to open in 1997. Pursuant to the terms of the arrangements, the developer will provide all necessary site procurement, design, construction, construction oversight and licensure services. The Company intends to finance the 16 facilities being developed by one developer, of which 11 are scheduled to open in 1997, through sale/leaseback arrangements with several real estate investment trusts or mortgage financing, although the Company may lease certain of the facilities from the developer. The Company will pay this developer for certain approved costs and expenses incurred by the developer in developing the facilities including labor, overhead, environmental expenses and engineering expenses. In the event that the execution of leases for the facilities, the acquisition of the sites for the facilities and the closing of financing for the facilities has not occurred before October 31, 1996, the Company is required to pay the developer for all costs incurred to date within ten days and the agreement with the developer will terminate. IHS has agreed to guaranty the payment of sums due to the developer by the Company until the closing of this offering and the satisfaction of certain financial covenants by the Company. The Company will lease the nine facilities being developed by the other developer, all of which are scheduled to open in 1997, pursuant to ten year leases with three five-year renewal options, and the right to purchase each facility at five year intervals for a purchase price equal to the greater of its then fair market value or $2.1 million. Lease payments for each of these facilities will initially be approximately $250,000 per annum and will increase annually based on the increase in the local consumer price index. The lease payments will be guaranteed by IHS until the closing of this offering and the satisfaction of certain financial covenants by the Company. The Company will make non-refundable purchase option deposits of $100,000 per facility, and has provided the developer with a $1,000,000 working capital line of credit that is due on demand and secured by the developer's interest in all documentation, permits, licenses and the land sites. IHS has agreed to guarantee construction financing for the first ten facilities developed by the developer. The Company has engaged a third developer to provide site selection, zoning, permitting and site adaptation services for four facilities, for which it will receive a fixed

percentage of the building cost. The Company has provided the president of this developer with a $1,000,000 working capital line of credit that is due on demand and secured by the developer's interest in all documentation, permits and licenses and land contracts relating to the developments it is overseeing on behalf of the Company. This developer is also expected to provide or arrange for the provision of design, construction, construction oversight and licensure services for these facilities. The Company intends to finance these facilities through sale/leaseback arrangements with real estate investment trusts or with mortgage financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

The Company expects that the average construction time for a typical assisted living facility will be approximately six to nine months, depending on the number of units. Once a site is developed, the Company estimates that it will take approximately six to 12 months for the assisted living facility to achieve a stabilized level of occupancy.

COMPETITION

The senior housing and healthcare industries are highly competitive and the Company expects that the assisted living business in particular will become more competitive in the future. The Company will continue to face competition from numerous local, regional and national providers of assisted living and long-term care whose facilities and services are on either end of the senior care continuum. The Company will compete with such facilities primarily on the bases of cost, quality of care, array of services provided and physician referrals. The Company will also compete with companies providing home based healthcare, and even family members, based on those factors as well as the reputation, geographic location, physical appearance of facilities and family preferences. Some of the Company's competitors operate on a not-for-profit basis or as charitable organizations, while others have, or may obtain, greater financial resources than those of the Company. However, the Company anticipates that its most significant competition will come from other assisted living facilities within the same geographic area as the Company's facilities because management's experience indicates that senior citizens frequently elect to move into facilities near their homes.

Moreover, in the implementation of the Company's expansion program, the Company expects to face competition for the acquisition and development of assisted living facilities. Some of the Company's current and potential competitors are significantly larger or have, or may obtain, greater financial resources than those of the Company. Consequently, there can be no assurance that the Company will not encounter increased competition in the future which could limit its ability to attract residents or expand its business and could have a material adverse effect on the Company's financial condition, results of operations and prospects. See "Risk Factors -- Competition."

GOVERNMENTAL REGULATION

The Company's assisted living facilities are subject to varying degrees of regulation and licensing by local and state health and social service agencies and other regulatory authorities specific to their location. While regulations and licensing requirements often vary significantly from state to state, they typically address, among other things: personnel education, training and records; facility services, including administration of medication, assistance with self-administration of medication and limited nursing services; physical plant specifications; furnishing of resident units; food and housekeeping services; emergency evacuation plans; and resident rights and responsibilities. In several states assisted living facilities also require a certificate of need before the facility can be opened. In most states, assisted living facilities also are subject to state or local building codes, fire codes and food service licensure or certification requirements. Like other healthcare facilities, assisted living facilities are subject to periodic survey or inspection by governmental authorities. The Company's success will depend in part on its ability to satisfy such regulations and requirements and to acquire and maintain any required licenses. The Company's operations could also be adversely affected by, among other things, regulatory developments such as mandatory increases in the scope and quality of care afforded residents and revisions in licensing and certification standards.

Certain states provide for Medicaid reimbursement for assisted living services pursuant to Medicaid Waiver Programs permitted by the Federal government. In the event the Company elects to provide services in states with a Medicaid Waiver Program, the Company may then elect to become certified as a Medicaid provider in such states. The Company is subject to certain federal and state laws that regulate relationships among providers of healthcare services. These laws include the Medicare and Medicaid anti-kickback provisions of the Social Security Act, which prohibit the payment or receipt of any remuneration

by anyone in return for, or to induce, the referral of patients for items or services that are paid for, in whole or in part, by Medicare or Medicaid. A violation of these provisions may result in civil or criminal penalties for individuals or entities and/or exclusion from participation in the Medicare and Medicaid programs. The Company intends to comply with all applicable laws, including the fraud and abuse laws; however, there can be no assurance that administrative or judicial interpretation of existing laws or regulations will not in the future have a material adverse impact on the Company's results of operations or financial condition. See "Risk Factors -- Governmental Regulation."

The Company's failure to comply with such regulations could jeopardize its reimbursement payments for any affected residents and could result in fines and the suspension or failure to renew the Company's operating licenses. These actions could have a material adverse effect on the Company's business and operating results and on its ability to develop and acquire properties in the future. The Company believes that it is currently in compliance with all material applicable regulations and requirements with respect to its assisted living facilities.

Twelve of the Company's 81 skilled nursing beds are currently certified to receive benefits as a skilled nursing facility provider under the Health Insurance for the Aged and Disabled Act (commonly referred to as "Medicare"), and substantially all are also certified under programs administered by the various states using federal and state funds to provide medical assistance to qualifying needy individuals ("Medicaid"). Both initial and continuing qualification of a skilled nursing care facility to participate in such programs depend upon many factors including, among other things, accommodations, equipment, services, patient care, safety, personnel, physical environment, and adequate policies, procedures and controls.

Under the Medicare program, the federal government pays the reasonable direct and indirect allowable costs (including depreciation and interest) of the services furnished. Under the various Medicaid programs, the federal government supplements funds provided by the participating states for medical assistance to qualifying needy individuals. The programs are administered by the applicable state welfare or social service agencies. Although Medicaid programs vary from state to state, typically they provide for the payment of certain expenses, up to established limits. Funds received by the Company under Medicare and Medicaid are subject to audit with respect to the proper preparation of annual cost reports upon which reimbursement is based. Such audits can result in retroactive adjustments of revenue from these programs, resulting in either amounts due to the government agency from the Company or amounts due the Company from the government agency.

Both the Medicare and Medicaid programs are subject to statutory and regulatory changes, administrative rulings, interpretations of policy determinations by insurance companies acting as Medicare fiscal intermediaries and governmental funding restrictions, all of which may materially increase or decrease the rate of program payments to healthcare facilities. Since 1985, Congress has consistently attempted to limited the growth of federal spending under the Medicare and Medicaid programs. In addition, a number of healthcare reform proposals have been introduced in Congress in recent years. It is not clear at this time what proposals, if any, will be adopted or, if adopted, what effect such proposals would have on the Company's business. The Company can give no assurance that payments under such programs will in the future remain at a level comparable to the present level or be sufficient to cover the operating and fixed costs allocable to such patients. Changes in reimbursement levels under Medicare or Medicaid and changes in applicable governmental regulations could significantly affect the Company's results of operations. It is uncertain at this time whether legislation on healthcare reform will ultimately be implemented or whether other changes in the administration or interpretation of governmental healthcare programs will occur. There can be no assurance that future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs will not have an adverse effect on the results of operations of the Company. The Company cannot at this time predict whether any healthcare reform legislation will be adopted or, if adopted and implemented, what effect, if any, such legislation will have on the Company.

Under the Americans with Disabilities Act of 1990, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws exist which also may require modifications to existing and planned properties to create access to the properties by disabled persons. While the Company believes that its properties are substantially in compliance with present requirements or are exempt therefrom, if required changes involve a greater expenditure than anticipated or must be made on a more accelerated basis

than anticipated, additional costs would be incurred by the Company. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons, the costs of compliance with which could be substantial.

The Company and its activities are subject to zoning and other state and local government regulations. Zoning variances or use permits are often required for construction. Severely restrictive regulations could impair the ability of the Company to open additional residences at desired locations or could result in costly delays, which could adversely affect the Company's growth strategy and results of operations. See "Risk Factors -- Limited Development Experience; Development Delays and Cost Overruns," "-- Business Strategy" and "-- Development and Acquisition."

EMPLOYEES

As of July 30, 1996, the Company had 482 employees, including 270 full-time employees, of which 21 were employed at the Company's headquarters. None of the Company's employees are currently represented by a labor union, and the Company is not aware of any union-organizing activity among its employees. The Company believes that its relationship with its employees is good.

Although the Company believes it is able to employ sufficient skilled personnel to staff the facilities it operates or manages, a shortage of skilled personnel in any of the geographic areas in which it

operates could adversely affect the Company's ability to recruit and retain qualified employees and control its operating expenses. See "Risk Factors -- Dependence on Senior Management and Skilled Personnel" and "-- Staffing and Labor Costs."

EXECUTIVE OFFICES

The Company's executive offices are located in Bonita Springs, Florida, where it has leased approximately 20,000 square feet.

LEGAL PROCEEDINGS

The Company is involved in various lawsuits and claims arising in the normal course of business. In the opinion of management of the Company, although the outcomes of these suits and claims are uncertain, in the aggregate they should not have a material adverse effect on the Company's business, financial condition and results of operations.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to the executive officers and directors of the Company:

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Robert N. Elkins, M.D.	53	Chairman of the Board of Directors
Edward J. Komp	42	President, Chief Executive Officer and Director
Kayda A. Johnson	48	Senior Vice President -- Chief Operating Officer and Secretary
John B. Poole	44	Senior Vice President -- Chief Financial Officer and Treasurer
Kyle D. Shatterly	35	Senior Vice President -- Acquisitions and Development
Luis Bared	46	Director
Lawrence P. Cirka	45	Director
Charles A. Laverty	51	Director
Lisa K. Merritt	36	Director

</TABLE>

Robert N. Elkins, M.D. became the Chairman of the Board of the Company in June 1996. Dr. Elkins has been the Chairman of the Board and Chief Executive Officer of IHS, the selling stockholder in this offering, since March 1986 and he served as President of IHS from March 1986 to July 1994. From 1980 until co-founding IHS in 1985, Dr. Elkins was a co-founder and Vice President of Continental Care Centers, Inc., an owner and operator of long-term healthcare facilities. From 1976 through 1980, Dr. Elkins was a practicing physician. Dr. Elkins is a graduate of the University of Pennsylvania, received his M.D. degree from the Upstate Medical Center, State University of New York, and completed his residency at Harvard University Medical Center. Dr. Elkins is a director of Capstone Capital Corporation, Community Care of America, Inc. and UroHealth Systems, Inc.

Edward J. Komp has served as President and Chief Executive Officer of the Company since March 1996 and as a director of the Company since June 1996. Prior to joining the Company, he served as Executive Vice President--Corporate Operations of IHS from November 1995 to March 1996 and as Senior Vice President--Managed Operations of IHS from October 1993 to November 1995, where he had operational responsibility for over 100 assisted living and long-term care facilities with approximately 13,000 beds nationwide. From 1979 until he joined IHS, Mr. Komp served in various senior operational and financial capacities with National Medical Enterprises, Inc., now Tenet Healthcare Corp.

Kayda A. Johnson has served as Senior Vice President--Chief Operating Officer and Secretary of the Company since March 1996. Prior to joining the Company, she served as Senior Vice President for Operations of IHS' Retirement Management Services division from March 1991. Prior to joining IHS, she was Director of Operations for Forum Group from 1990, and from 1982 to 1990 she was regional Vice President of Operations for Retirement Corporation of America. Ms. Johnson is a licensed Nursing Home Administrator and Registered Nurse. She is also a licensed Preceptor for Nursing Home Administrators and a Certified Residential Care Administrator. She has served on the faculty of the University of Redlands for the past 15 years, teaching business and management courses to MBA and BBA students. She is a member of the Board of Directors of the National Association for the Senior Living Industries ("NASLI") and serves as NASLI's Commissioner for Health Care as well as on the Executive Committee. She is a member of the Board of Directors of the Assisted Living Facilities Association of America ("ALFAA"); serves on the Residential Services Committee for the California Association of Homes and Services for the Aged ("CAHSA"); and is a member of the advisory committee of the American Seniors Housing Association. She also serves on the Assisted Living Advisory Board of the American Health Care Association ("AHCA"), the Assisted Living Advisory Board -- Contemporary Long Term Care, and the Advisory Group for the NIC.

John B. Poole has served as Chief Financial Officer of the Company since March 1996. From November 1995 until he joined the Company, he was as an independent consultant to the long-term care industry. From July 1994 through October 1995 he served as Chief Financial Officer of American Care Communities, Inc., an owner and operator of assisted living residences. From March 1993 through June 1994 he served as Chief Financial Officer of Medifit of America, Inc., an owner and operator of outpatient physical therapy centers and corporate fitness centers. From October 1990 to February 1993 he served as Chief Financial Officer of Frankwood Holdings, Ltd., an owner and operator of a third-party administrator of health claims. From 1979 to August 1990 he served in various positions at Beverly Enterprises, Inc., an owner and operator of long-term health care facilities, including Senior Vice President and Chief Accounting Officer, where he had responsibility for all accounting and data processing for the entire company.

Kyle D. Shatterly has served as Senior Vice President of Acquisitions and Development of the Company since April 1996. From 1988 until 1995, he held concurrent Vice President positions at both Health Equity Properties ("EQP"), a New York Stock Exchange listed real estate investment trust, and at Benton Investment Company ("BIC"). BIC was a holding company that controlled over $300 million of real estate assets, in addition to owning several operating companies that specialized in healthcare, multi-family housing and computer networks. EQP served as an advisory affiliate of BIC. His responsibilities included mergers and acquisitions, financial analysis and structured finance. From 1982 until 1987, he was employed by Merrill Lynch & Co. and Alex. Brown and Sons Incorporated.

Luis Bared has served as a director of the Company since June 1996. Mr. Bared is currently the Chairman and Chief Executive Officer of several closely held businesses located in Puerto Rico and also serves as President and Chief Operating Officer of DFI Caribbean, a wholly owned subsidiary of Duty Free International (DFI), a New York Stock Exchange listed company. From 1975 until the sale of the company in May, 1993, Mr. Bared served as Chairman and Chief Executive Officer of Bared Jewelers of the V.I., Inc., a chain of six duty-free

stores established by Mr. Bared in 1975, with locations in the U.S. Virgin Islands.

Lawrence P. Cirka became a director of the Company in June 1996. He has been President and Chief Operating Officer of IHS since July 1994 and a director of IHS since July 1994. He was Senior Vice President and Chief Operating Officer from October 1987 to July 1994. Prior to joining IHS, Mr. Cirka served in various operational capacities with Unicare Healthcare Corporation, a long-term health care company, for 15 years, most recently as Vice President-Western Division.

Charles A. Laverty became a director of the Company in June 1996. Mr. Laverty, Chairman and Chief Executive Officer of UroHealth Systems, Inc. ("UroHealth"), became President and Chief Executive Officer in September 1994, and Chairman of the Board of Directors of UroHealth in December 1994. Prior to joining UroHealth, Mr. Laverty was employed as Senior Executive Vice President and was a director of Coram Healthcare Corporation, a home infusion therapy company which was formed in 1994 by the merger of Curaflex Health Services, Inc., HealthInfusion, Inc., Medisys, Inc., and T(2) Medical, Inc. Mr. Laverty served as the Chairman of the Board, President and Chief Executive Officer of Curaflex Health Services from February 1989 to August 1994. Prior to his association with Curaflex, Mr. Laverty served as President and Chief Executive Officer of InfusionCare, Inc., a home infusion services company, from October 1988 to February 1989. In addition, he has held several positions, including Chief Operating Officer, with Foster Medical Corporation, a durable medical equipment supply company, and worked in both sales and management for C.R. Bard, a medical device company.

Lisa K. Merritt became a director of the Company in June 1996. She has been a Vice President of The Chase Manhattan Private Bank since May 1996. From January 1989 to May 1996, Ms. Merritt served as Vice President/District Manager of Chase Manhattan Personal Financial Services and from July 1987 to January 1989 served in various capacities, including commercial real estate, residential real estate, and consumer lending at Chase Manhattan Bank, N.A. Prior to joining Chase Manhattan Bank, Ms. Merritt was Divisional Vice President at Pioneer Savings Bank from 1986 to 1987. From 1983 to 1986, she served as Assistant Vice President at Presidential Bank. Ms. Merritt is a past Director of the Mortgage Bankers Association of Southwest Florida.

The Company's Restated Certificate of Incorporation provides for the classification of the Board of Directors into three classes of directors (Class I, Class II and Class III), with the term of each class expiring at successive annual stockholders' meetings. At and after the 1997 Annual Meeting of Stock

holders, all nominees of the class standing for election will be elected for three-year terms. The terms of office for Messrs. Bared and Laverty expire at the 1997 Annual Meeting of Stockholders, the terms of office of Mr. Cirka and Ms. Merritt expire at the 1998 Annual Meeting Stockholders, and the terms of office of Dr. Elkins and Mr. Komp expire at the 1999 Annual Meeting of Stockholders.

The executive officers of the Company are elected annually by the Board of Directors following the annual meeting of stockholders and serve at the discretion of the Board of Directors.

The members of the Audit Committee and the Compensation Committee are Mr. Laverty, Mr. Bared and Ms. Merritt. The Audit Committee reviews the adequacy of the Company's internal control systems and financial reporting procedures, reviews the general scope of the annual audit, reviews and monitors the performance of non-audit services by the Company's independent auditors and reviews interested transactions between the Company and any of its affiliates. The Compensation Committee administers the Company's Stock Incentive Plan and makes recommendations to the Board concerning compensation for the Company's officers and employees.

COMPENSATION OF DIRECTORS

The Company will pay each director who is not an employee $1,000 for attendance in person at each meeting of the Board of Directors or of any committee thereof held on a day on which the Board of Directors does not meet. In addition, the Company will reimburse the directors for travel expenses incurred in connection with their activities on behalf of the Company. Directors have been granted options to purchase Common Stock and will also receive stock options under the Company's Non-Employee Director Stock Option Plan. See "--Stock Options."

EXECUTIVE COMPENSATION

The Company was organized in November 1995. During fiscal 1995, Mr. Komp and Ms. Johnson served as executive officers of IHS. For the year ended December 31,

1995, Mr. Komp received from IHS a salary of $261,000, a cash bonus of $32,500, a bonus consisting of 2,614 shares of IHS common stock (having a value of $57,508 based on the $22.00 price of the IHS common stock on the date of issuance), a car allowance of $6,000 and a $67,720 contribution by IHS to a Supplemental Deferred Compensation Plan. For the year ended December 31, 1995, Ms. Johnson received from IHS a salary of $162,665, a cash bonus of $15,000, and a bonus consisting of 682 shares of IHS common stock (having a value of $15,004 based on the $22.00 price of the IHS common stock on the date of issuance). Neither Mr. Poole nor Mr. Shatterly, the other executive officers of the Company, was employed by IHS or the Company during 1995. For information regarding the 1996 compensation for Messrs. Komp, Poole and Shatterly and Ms. Johnson see "--Employment Agreements."

EMPLOYMENT AGREEMENTS

The Company is a party to Employment Agreements (the "Employment Agreements") with each of Edward J. Komp, Kayda A. Johnson, John B. Poole and Kyle D. Shatterly to serve as President and Chief Executive Officer, Senior Vice President -- Chief Operating Officer, Senior Vice President -- Chief Financial Officer and Senior Vice President -- Acquisitions and Development, respectively. Subject to earlier termination, as discussed below, each Employment Agreement is for a three-year term commencing as of May 1, 1996; however, the Employment Agreements of Mr. Komp and Ms. Johnson provide for automatic one-year extensions on each anniversary thereof unless 120 days' notice of nonrenewal is given by either party prior to such anniversary date. The current annual base salary ("Base Salary") for each executive is: $285,000 for Mr. Komp; $195,000 for Ms. Johnson; $150,000 for Mr. Poole; and $135,000 for Mr. Shatterly. Each Employment Agreement provides that the executive's Base Salary is to be increased annually by a percentage equal to the percentage increase in the Consumer Price Index ("CPI") and, with respect to each executive other than Mr. Komp, by such additional amounts as may be determined in the discretion of the Company's President or Chief Executive Officer. The Base Salary of Mr. Komp may be increased in the discretion of the Board of Directors. Each executive may also receive annual cash bonuses in an amount determined in the discretion of the Board

of Directors; provided, however, if the Company meets or exceeds performance goals specified by the Board of Directors, each executive will receive a bonus of not less than 30% of Base Salary (50% in the case of Mr. Komp). Mr. Shatterly's and Mr. Poole's 1996 bonus will be prorated from the date of their respective Employment Agreements.

Pursuant to the Employment Agreements, each executive is entitled to (a) comprehensive individual and dependent health insurance, (b) Company paid life insurance coverage in the amount of $500,000 ($1,000,000 in the case of Mr. Komp) and accidental death and dismemberment insurance, (c) disability insurance coverage in a monthly benefit amount equal to the sum of the executive's Base Salary plus a "Bonus Amount" (as defined in the Employment Agreements), (d) an annual automobile allowance of $9,600, subject to increase based on the CPI, (e) a Company paid personal umbrella (excess) insurance policy in the amount of $2,000,000 ($5,000,000 in the case of Mr. Komp), and (f) participate in any executive retirement program established and maintained by the Company (collectively, the "Executive Benefits"). In addition, each executive is entitled to receive equity-based compensation in the discretion of the Compensation Committee of the Board of Directors. The Company has also agreed to reimburse each executive (other than Ms. Johnson) for certain expenses incurred as a result of their relocation to Florida.

The Employment Agreement with Mr. Komp may be terminated by either party on 90 days' notice. Upon termination of Mr. Komp's employment without Cause, the expiration of, or the Company's failure to renew, the Employment Agreement, or the resignation of Mr. Komp for Good Reason, Mr. Komp will be entitled to the sum of (1) the remaining Base Salary due under his Employment Agreement (generally three years unless prior notice of nonrenewal has been given) and (2) the higher of his bonus in the year of termination or in the previous year. In addition, Mr. Komp will continue to receive his existing level of Executive Benefits or the level of Executive Benefits received during the preceding year, whichever is greater, throughout the severance period (generally three years) and all stock options, other equity-based rights and rights under the Company's Supplemental Deferred Compensation Plan ("SERP") then held by Mr. Komp will become fully vested. The Employment Agreements with Ms. Johnson and Messrs. Poole and Shatterly may each be terminated by either party on 90 days' notice. Upon termination without Cause, the expiration of the Employment Agreement, or the resignation of the executive for Good Reason, or, in the case of Ms. Johnson, the failure to renew the Employment Agreement, the executive will be entitled to a payment of one and one-half times the sum of (1) the greater of his or her salary in the year of termination or in the previous year and (2) the higher of his or her bonus in the year of termination or in the previous year. In addition, for a period of 18 months following such termination, each of Ms. Johnson and Messrs. Poole and Shatterly will continue to receive their existing

level of Executive Benefits or the level of Executive Benefits received during the preceding year, whichever is greater, and all stock options, other equity-based rights and SERP rights then held by Ms. Johnson and Messrs. Poole or Shatterly, respectively, will become fully vested.

For purposes of each of the Employment Agreements, "Cause" is defined as (i) material failure to perform duties, (ii) material breach of confidentiality or noncompete provisions, (iii) conviction of a felony, or (iv) theft, larceny, or embezzlement of Company property. "Good Reason" is defined as (i) a material breach of the agreement by the Company or (ii) resignation of the executive within one year after a change in control. A "change of control" of the Company is deemed to occur under the Employment Agreements, in general: (i) when a person, other than the executive or a group controlled by the executive, becomes the "beneficial owner" of 20% or more of the Company's Common Stock, (ii) in the event of certain mergers or consolidations in which the Company is not the surviving entity, (iii) in the event of the sale, lease or transfer of substantially all of the Company's assets or the liquidation of the Company or (iv) if, within any 24-month period, the persons who were members of the Board of Directors at the beginning of such period cease to constitute a majority of the Board of Directors of the Company or any successor entity.

Each Employment Agreement contains covenants by the executive to, among other things, maintain the confidentiality of trade secrets of the Company during the term of their Employment Agreements and thereafter, as well as covenants not to solicit employees or customers of the Company and not to be employed or have certain other relationships with entities which are directly in the business of

owning, operating or managing facilities which compete with any such facility then operated by the Company or any of its subsidiaries during the term of their Employment Agreement and for a 12 month period thereafter.

STOCK OPTIONS

Stock Incentive Plan. The Company adopted the Stock Incentive Plan to enable the Company and its stockholders to secure the benefits of Common Stock ownership by key personnel of the Company and its subsidiaries. The Stock Incentive Plan permits the issuance of restricted stock and the granting of options to purchase an aggregate of 470,040 shares of the Company's Common Stock to key employees of and consultants to the Company or any of its subsidiaries. Directors who perform services for the Company solely in their capacities as directors are not eligible to receive shares of restricted stock or options under the Stock Incentive Plan. The number of shares which may be issued under the Stock Incentive Plan is subject to adjustment in proportion to any increase or decrease in the number of issued shares of Common Stock resulting from a stock dividend, split-up, consolidation or any similar capital adjustment. Options granted under the Stock Incentive Plan may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("ISOs"), or options which do not qualify as ISOs ("non-ISOs").

The Stock Incentive Plan will be administered by the Compensation Committee of the Board of Directors (the "Committee"). No member of the Committee may receive an option or a restricted stock award under the Stock Incentive Plan within one year prior to his or her becoming a member of the Committee or at any time while he or she is serving as a member of the Committee. Subject to the provisions of the Stock Incentive Plan, the Committee has the authority to determine the individuals to whom shares of restricted stock or stock options will be granted, the number of shares to be issued or covered by each restricted stock or option grant, the purchase or option price, the type of option, the option period, the vesting restrictions or repurchase restrictions, if any, with respect to the restricted stock or exercise of the option, the terms for the payment of the restricted stock or the option price and other terms and conditions. Payment for shares under a restricted stock award or pursuant to the exercise of an option may be made (as determined by the Committee) in cash or by shares of Common Stock.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of the Common Stock on the date of grant (110% in the case of a grant to an employee who owns stock possessing more than 10% of the combined voting power of all classes of stock of the Company or any subsidiary entitled to vote (a "10% Stockholder")). The purchase price for shares of restricted stock and the exercise price for shares covered by a non-ISO may not be less than the par value of the Common Stock at the date of grant. All options must expire no later than ten years (five years in the case of an ISO granted to a 10% Stockholder) from the date of grant. The Stock Incentive Plan also provides that the options will become exercisable and restricted stock awards will become fully vested upon a change in control of the Company or if, at any time within two years following the date any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) shall become the beneficial

owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Company's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company, either the Company terminates the optionee's employment (other than for Cause (as defined in the Stock Incentive Plan)), or the optionee leaves the employ of the Company for Good Reason (as defined in the Stock Incentive Plan). A "change in control of the Company" is deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving entity or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute

the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds (2/3) of the directors then still in office who were directors at the beginning of the period. In general, no option may be exercised more than three months after the termination of the optionee's service with the Company and its subsidiaries. However, the three-month period is extended to twelve months if the optionee's service is terminated by reason of disability or death and the Committee may in its discretion extend the period of exercise following termination of employment. No individual may be granted ISOs that become exercisable for the first time in any calendar year for Common Stock having a fair market value at the time of grant in excess of $100,000. In addition, the maximum option grant which may be made to an employee of the Company in a calendar year shall not cover more than 500,000 shares.

Options may not be transferred during the lifetime of an optionee. Subject to certain limitations set forth in the Stock Incentive Plan and applicable law, the Board of Directors may amend or terminate the Stock Incentive Plan. In any event, no restricted stock awards or stock options may be granted under the Stock Incentive Plan after May 24, 2006.

On June 10, 1996, each of Ms. Johnson and Messrs. Komp, Poole and Shatterly was granted an option to purchase 78,000 shares, 157,000 shares, 78,000 shares and 55,000 shares, respectively, of Common Stock at an exercise price per share equal to the initial public offering price set forth on the cover page of this Prospectus. The options become exercisable in five equal annual installments commencing June 10, 1997. The options expire on the earlier of June 10, 2006 or three months after the optionee ceases to be an employee of the Company (one year if by reason of death or disability).

Non-Plan Director Options. On June 10, 1996, each of Ms. Merritt, Dr. Elkins and Messrs. Bared, Cirka and Laverty was granted an option to purchase 16,000 shares, 235,000 shares, 28,000 shares, 98,000 shares and 28,000 shares, respectively, of Common Stock at an exercise price per share equal to the initial public offering price set forth on the cover page of this Prospectus. These options become exercisable in three equal annual installments, commencing June 10, 1997, although they will become immediately exercisable upon (i) a change in control of the Company (as defined below under "Non-Employee Director Stock Option Plan"), (ii) the removal (other than for justifiable cause (as defined in the option agreement)) of the optionee as, or the Company's failure to renominate (other than for justifiable cause) the optionee for election as, a director of the Company at any time within two years following the date any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Company's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company, or (iii) the death or disability of the optionee. The options expire on the earlier to occur of June 10, 2006 or six months after the optionee ceases to be a director (one year if by reason of death or disability).

Non-Employee Director Stock Option Plan. The Company has adopted the Non-Employee Director Stock Option Plan (the "Non-Employee Director Plan") to promote the Company's interests by attracting and retaining highly skilled, experienced and knowledgeable non-employee directors. Pursuant to the Non-Employee Director Plan, each non-employee director of the Company will automatically receive on the date of each annual meeting of stockholders of the Company (the "Grant Date") following completion of this offering, as long as such person remains a director following such meeting, an option to purchase 7,500 shares of the Company's Common Stock (the "Option") at a per share

exercise price equal to the fair market value of the Common Stock on the Grant Date. A total of 75,000 shares are reserved for issuance under the Non-Employee Director Plan. The number of shares which may be issued under the Non-Employee Director Plan is subject to adjustment to reflect any increase or decrease in the number of shares of Common Stock resulting from a stock split, stock dividend, consolidation or other similar capital adjustment.

Except as set forth below, Options become exercisable in three equal annual installments commencing on the first anniversary of the Grant Date. In the event that a director ceases to be a director of the Company, such person may exercise the Option if it is exercisable by him at the time he ceases to be a

director of the Company, within six months after the date he ceases to be a director of the Company (one year if he ceases to be a director by reason of death or disability). Notwithstanding the foregoing, in the event a "Change of Control of the Company" shall occur, or the optionee is removed (other than for justifiable cause (as defined in the Non-Employee Director Plan)) as, or is not renominated (other than for justifiable cause) for election as, a director of the Company at any time within two years following the date any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Company's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company, then all options granted under the Non-Employee Director Plan which are then outstanding shall immediately become exercisable. A "Change in Control of the Company" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period. Options granted under the Non-Employee Director Plan shall have a term of ten years from the Grant Date and shall not be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

The Non-Employee Director Plan will be administered by the Board of Directors of the Company. However, the Non-Employee Director Plan prescribes the individuals who would be awarded Options, the number of shares subject to the Options, and the terms and conditions of each award. The Board of Directors may at any time terminate the Non-Employee Director Plan and may from time to time alter or amend the Non-Employee Director Plan or any part thereof, provided that the rights of a director with respect to an option granted prior to such termination, alteration or amendment may not be impaired.

Option Grants. The following table sets forth certain summary information concerning individual grants of stock options to each of the Company's executive officers. No stock options were granted in the year ended December 31, 1995.

OPTION GRANTS

<TABLE>
<CAPTION>

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (2)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1996	EXERCISE PRICE ($/SHARE)(1)	EXPIRATION DATE	5%($)	10%($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Edward J. Komp ..	157,000	34.9%	$14.00	6/10/2006	$1,381,600	$3,502,670

Kayda Johnson ...	78,000	17.3%	$14.00	6/10/2006	$ 686,400	$1,740,180
John B. Poole ...	78,000	17.3%	$14.00	6/10/2006	$ 686,400	$1,740,180
Kyle D. Shatterly.....	55,000	12.2%	$14.00	6/10/2006	$ 484,000	$1,227,050

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(1) The exercise price per share of all options granted will be the initial public offering price. Each option becomes exercisable as to 20% of the shares on June 10, 1997 and as to an additional 20% on each successive June 10.

(2) These amounts represent assumed rates of appreciation in the price of the Company's Common Stock during the terms of the options in accordance with rates specified in applicable federal securities regulations. Actual gains, if any, on stock option exercises will depend on the future price of the Common Stock and overall stock market conditions. There is no representation that the rates of appreciation reflected in this table will be achieved.

SUPPLEMENTAL DEFERRED COMPENSATION PLAN

The Company's Supplemental Deferred Compensation Plan (the "SERP") is an unfunded deferred compensation plan which offers certain executive and other highly compensated employees an opportunity to defer compensation until the termination of their employment with the Company. Contributions to the SERP by the Company, which vest over a period of ten years, are determined by the Board upon recommendation of the Committee and are allocated to participants' accounts on a pro rata basis based upon the compensation of all participants in the SERP in the year such contribution is made. In addition, a participant may elect to defer a portion of his or her compensation and have that amount added to his or her SERP account. Participants may direct the investments in their respective SERP accounts. All participant contributions and the earnings thereon, plus the participant's vested portion of the Company's contribution account, are payable upon termination of a participant's employment with the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee currently consists of Luis Bared, Charles A. Laverty and Lisa Merritt. Each of Messrs. Bared and Laverty and Ms. Merritt has received options to purchase shares of Common Stock. See "-- Stock Options -- Non-Plan Director Options."

CERTAIN TRANSACTIONS

The Company was formed in November 1995 as a wholly-owned subsidiary of IHS to operate the assisted living and other senior housing facilities owned, leased and managed by IHS. Following the Company's formation, IHS transferred to the Company as a capital contribution its ownership interest in The Waterside and The Homestead facilities, sublet to the Company The Shores and Cheyenne Place facilities, and leased to the Company the assisted living and related portions of the Treemont and West Palm Beach facilities. IHS also transferred to the Company all the stock of a company which had agreements to manage nine facilities (one of which was cancelled by mutual agreement in July 1996).

To date IHS has provided all required financial, legal, accounting, human resources and information systems services to the Company, and has satisfied all the Company's capital requirements in excess of internally generated funds. IHS has charged the Company a flat fee of 6% of total revenue for these services, except that with respect to the Waterside facility prior to October 1995, IHS and the minority owner of the facility each charged the Company a fee of 4.5% of monthly service fee revenue for these services. The Company estimates that the cost of obtaining these services from third parties would have been significantly higher than the fees charged by IHS. IHS has agreed to provide certain administrative services to the Company after the closing of this offering until the Company has implemented its own MIS and accounting systems, which the Company anticipates will occur in the fourth quarter of 1996. See "Business -- Operations."

Effective June 1, 1996, IHS contributed to the capital of the Company condominium interests in the assisted living portions of the West Palm Beach, Treemont and Vintage facilities to the Company as a contribution to capital. These assisted living facilities are immediately adjacent to or are located within the same building and share common areas with an existing IHS facility. Prior to the contribution of condominium interests in the assisted living portion of each of these facilities, a condominium association was created and a Declaration of Condominium was filed that governs these facilities. The Company and IHS are the only members of these condominium associations, and share the cost of maintaining the common areas of such facilities.

In connection with the Company's operation of the West Palm Beach, Treemont

and Vintage assisted living facilities, the Company and an operating subsidiary of IHS have entered into Services Agreements whereby IHS provides certain facility services to the Company. Pursuant to the individual Service Agreements, IHS provides the Company (and its residents) with a combination of the following services: building maintenance services (West Palm Beach facility only: $3,200 monthly fee paid to IHS); housekeeping (West Palm Beach facility only: $2,000 monthly fee paid to IHS); laundry services (all facilities: monthly fees paid to IHS are $850 (West Palm Beach), $1,500 (Vintage) and $3,300

(Treemont)); emergency call services (all facilities: $100 monthly fee paid to IHS); and nutrition (resident meals) services (all facilities: fees paid to IHS equal $8.00 (Vintage) and $10.00 (West Palm Beach and Treemont) per resident/per day). In addition, pursuant to each Services Agreement, the Company pays IHS a monthly general building management and landscaping services fee equal to $4,583 (Vintage), $14,166 (West Palm Beach) and $31,083 (Treemont), respectively. In connection with the administration of the Vintage facility, IHS and the Company share the services of the executive director and the Company pays IHS an amount equal to thirty percent (30%) of the total costs and expenses (including all wages, benefits, payroll taxes, and workers' compensation premiums) of the executive director of the facility. Other than the general building management and landscaping services fee, each of the above described fees are subject to an annual increase equal to the Consumer Price Index for All Urban Consumers--All Cities (not to exceed 4%). Each Service Agreement has a one-year term and will be automatically renewed for successive one-year terms unless otherwise terminated. Each Service Agreement may be terminated by either party upon 180 days' notice or 30 days following the delivery of a notice of material breach if the breach is not cured to the satisfaction of the non-breaching party.

The Company and IHS are parties to an Administrative Services Agreement, dated effective June 1, 1996, pursuant to which IHS provides accounts payable, accounts receivable, corporate accounting, payroll and payroll tax services, human resources support and risk management support services (the "Services") to the Company. The agreement allows the Company to terminate, upon 30 days' prior notice, any portion of the Services prior to the expiration of the agreement. The Company will pay IHS a monthly fee equal to 1.2% of the gross revenues of each of the Company's assisted living facilities (subject to reduction as the Company terminates Services). The initial term of the Administrative Services Agreement is 12 months and will be automatically renewed for an additional 12 month period unless terminated.

Pursuant to sublease agreements dated as of June 1, 1996, an operating subsidiary of the Company subleases The Shores and The Cheyenne Place facilities from IHS. The subleases provide for the payment of annual rent aggregating $1.7 million, which amount is substantially similar to the amount paid by IHS to the property owner ($1.4 million in rent plus $321,000 in annual purchase option deposits representing the facilities' allocable portion of the total annual purchase option deposit IHS is required to make). In connection with the execution of each sublease agreement, the Company has executed a guaranty agreement whereby the Company guarantees the payment of obligations due under the sublease agreements.

IHS has made available to the Company a $75 million revolving credit facility. Borrowings under the facility bear interest at the rate of 14% per annum. All outstanding borrowings, together with all accrued but unpaid interest, are due at the earlier of (i) the closing of an initial public offering by ILC or (ii) June 30, 1998. At June 30, 1996 and August 15, 1996, $3.4 million and $6.7 million, respectively, were outstanding under the facility. The Company intends to use a portion of the proceeds of this offering to repay all amounts outstanding under this facility. See "Use of Proceeds." Borrowings under this facility were used to finance the Company's development activities.

IHS has agreed to guaranty certain obligations of the Company to HCPI and to certain of the Company's developers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Business -- Properties--Development."

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of the Common Stock of the Company as of August 22, 1996 and as adjusted to reflect the sale of 2,435,700 shares of Common Stock by the Company and the sale of 2,694,900 shares of Common Stock by IHS, by (i) each person known by the Company to own beneficially more than 5% of the Common Stock, (ii) each director of the Company; (iii) each executive officer of the Company and (iv) all directors and executive officers as a group. Except as otherwise noted, each named beneficial owner has sole voting and investment power with respect to the shares owned.

<TABLE>
<CAPTION>

NAME	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)		NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING(1)	
	NUMBER	PERCENT		NUMBER	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>
Integrated Health Services, Inc. (2)	3,897,900	100.0%	2,694,900	1,203,000	19.0%
Robert N. Elkins, M.D. (3).....	4,132,900	100.0%	--	1,438,000	21.9
Edward J. Komp (4).....	157,000	3.9	--	157,000	2.4
Kayda Johnson (4).....	78,000	2.0	--	78,000	1.2
John B. Poole (4).....	78,000	2.0	--	78,000	1.2
Kyle D. Shatterly (4).....	55,000	1.4	--	55,000	*
Luis Bared (4).....	28,000	*	--	28,000	*
Lawrence P. Cirka (4).....	98,000	2.5	--	98,000	1.5
Charles A. Laverty (4).....	28,000	*	--	28,000	*
Lisa Merritt (4).....	16,000	*	--	16,000	*
All executive officers and directors as a group (9 persons)(5).....	4,670,900	100.0%	2,694,900	1,976,000	27.8%

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* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to these securities.

(2) The address of Integrated Health Services is 10065 Red Run Boulevard, Owings Mills, Maryland 21117.

(3) Consists of the shares of Common Stock owned by IHS and options to purchase 235,000 shares of Common Stock, none of which are currently exercisable. Dr. Elkins is Chairman of the Board and Chief Executive Officer of IHS and, as a result, may be deemed to beneficially own the shares of Common Stock owned by IHS. Dr. Elkins disclaims beneficial ownership of such shares. Dr. Elkin's address is c/o IHS, 8889 Pelican Bay Boulevard, Naples, Florida 33963.

(4) Consists of options to purchase shares of Common Stock, none of which are currently exercisable.

(5) Consists of the shares of Common Stock owned by IHS and options to purchase 773,000 shares of Common Stock, none of which are currently exercisable.

</TABLE>

DESCRIPTION OF CAPITAL STOCK

The Company is authorized to issue up to 100,000,000 shares of Common Stock, par value $.01 per share, 3,897,900 shares of which are issued and outstanding as of the date hereof and held of record by IHS, and 5,000,000 shares of Preferred Stock, $.01 par value, none of which are outstanding as of the date hereof.

COMMON STOCK

Holders of Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. The Common Stock does not have cumulative voting rights, and, as a result, the holders of a majority of the shares of Common Stock entitled to vote in any election of directors may elect

all of the directors standing for election, and, in that event, the holders of the remaining shares will not be able to elect any directors. Subject to the rights and preferences of any Preferred Stock which may be issued, the holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor and, upon the liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to receive ratably the net assets of the Company available after the payment of all debts and other liabilities. Holders of Common Stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of Common Stock are, and the shares offered by the Company in this offering will be, when issued and paid for, fully paid and nonassessable. The rights, privileges and preferences of holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any shares of Preferred Stock which the Company may designate and issue in the future.

At present, there is no active trading market for the Common Stock. The Common Stock has been approved for quotation on the Nasdaq National Market under the symbol "ILCC." See "Risk Factors -- No Prior Public Market; Possible Volatility of Stock Price."

PREFERRED STOCK

The Preferred Stock may be issued from time to time in one or more series as determined by the Board of Directors. The Board of Directors is authorized to issue the shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The Preferred Stock could be issued by the Board of Directors with voting and conversion rights that could adversely affect the voting power and other rights of the holders of the Common Stock. In addition, because the terms of the Preferred Stock may be fixed by the Board of Directors of the Company without stockholder action, the Preferred Stock could be issued quickly with terms calculated to defeat or delay a proposed takeover of the Company, or to make the removal of the management of the Company more difficult. Under certain circumstances, this could have the effect of decreasing the market price of the Common Stock. The Company has no present plans to issue any Preferred Stock. See "Risk Factors -- Effect of Certain Anti-Takeover Provisions."

REGISTRATION RIGHTS

The Company has granted "piggyback" registration rights with respect to the shares of Common Stock owned by IHS after this offering. As a result, if the Company proposes to register any of its securities, either for its own account or for the account of other stockholders, the Company is required, with certain exceptions, to notify IHS and, subject to certain limitations, to include in such registration all of the shares of Common Stock requested to be included by IHS. In addition, the Company has granted to IHS certain "shelf" registration rights which are exercisable beginning one year after the date of this offering. The Company is generally required to pay all of the expenses of such registrations other than the underwriting discounts and commissions. See "Risk Factors -- Shares Eligible for Future Sale; Registration Rights."

CERTAIN PROVISIONS OF THE RESTATED CERTIFICATE OF INCORPORATION AND BY-LAWS

Number of Directors. The Restated Certificate of Incorporation, as amended (the "Restated Certificate"), and By-laws of the Company provide that the number of members of the Board of Directors be fixed from time to time by the Company's Board of Directors, provided that the number of directors shall not be reduced so as to shorten the term of any director then in office. This number may be increased whenever the holders of any other series of Preferred Stock which may be issued by the Company have the right, voting as a separate class or series, to elect directors of the Company for so long as such right to elect directors exists.

Classification of Board of Directors. The Restated Certificate and By-laws of the Company divide the Board of Directors into three classes, designated Class I, Class II and Class III, respectively, each class to be as nearly equal in number as possible. The term of Class I, Class II and Class III directors will expire at the 1997, 1998 and 1999 annual meetings of stockholders, respectively, and in all cases directors elected will serve until their respective successors are elected and qualified. At each annual meeting of stockholders, directors will be elected to succeed those in the class whose terms then expire, each elected director to serve for a term expiring at the third succeeding annual meeting of stockholders after such director's election, and until the director's

successor is elected and qualified. Thus, directors elected stand for election only once in three years.

Additional Directorships, Vacancies and Removal of Directors. Under the Delaware General Corporation Law (the "DGCL"), the Restated Certificate and By-laws, the Board of Directors is authorized to create additional directorships, elect such additional directors and fill vacancies which may arise in the Board. Newly-created directorships and vacancies may be filled by a majority of directors then in office to hold office until the next election of the class for which such directors have been chosen, and until their successors shall be elected and qualified. In addition, in accordance with the DGCL pertaining to a company whose Board of Directors is classified, the Company's Restated Certificate and By-laws provide that directors may be removed only for cause by vote of the holders of 75% of the shares entitled to vote at an election of directors, except that directors elected by holders of Preferred Stock may only be removed as provided in the Company's Restated Certificate or the Certificate of Designation of such Preferred Stock.

Stockholder Action and Special Meetings. The Restated Certificate and By-laws provide that any action of stockholders must be effected at a duly called meeting and not by written consent in lieu of a meeting unless there are fewer than two stockholders. The By-laws do not permit stockholders of the Company to call special meetings of stockholders. A special meeting of stockholders may only be called by the Chairman of the Board, the President or the Board of Directors of the Company and are to be held only for the purposes set forth in the notice of meeting. The affirmative vote of the holders of at least 80% of the Company's then outstanding capital stock entitled to vote in the election of directors (considered for this purpose as one class) is required to amend, alter or repeal, or to adopt any provision inconsistent with, the provisions of the Restated Certificate and By-laws described herein or to change such required vote.

Advance Notice Requirements for Stockholder Proposals and Director Nominations. The By-laws establish an advance notice procedure for the nomination, other than by or at the direction of the Board of Directors or a committee thereof, of candidates for election as directors (the "Nomination Procedure") as well as for other stockholder proposals to be considered at annual stockholders' meetings. Notice to the Company from a stockholder who proposes to nominate a person at a meeting for election as a director generally must be given not less than 120 nor more than 150 days prior to the anniversary of the date notice of the annual meeting of stockholders was given in the preceding year and contain: (i) the name and record address of the stockholder who intends to make the nomination; (ii) the name, age and residence address of the nominee; (iii) the principal occupation or employment of the nominee; (iv) the class, series and number of shares held of record, beneficially and by proxy, by the stockholder and the nominee as of the record date of such meeting (if such record date is publicly available) and as of the date of such notice; (v) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons naming such person or persons pursuant to which

the nomination or nominations are to be made by such stockholder; (vi) the written consent of the persons to be named as nominee and to serve if elected; and (vii) such other information relating to the nominee proposed by such stockholder as is required to be included in a proxy statement or otherwise required pursuant to Regulation 14A under the Securities Exchange Act of 1934, including the written consent of each nominee to being named in the proxy statement and to serve as a director of the Company if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the Nomination Procedure. Similar advance notice must be given of any other proposed business which a stockholder proposes to bring before an annual meeting of stockholders. Such notice must contain (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class, series and number of shares of the Company's stock which are held of record, beneficially and by proxy by the stockholder as of the record date of such meeting (if such record date is publicly available) and as of the date of such notice, (iv) a description of all arrangements or understandings between the stockholder and any other person or persons (naming such person or persons) in connection with the proposing of such business by the stockholder, and (v) any material interest of the stockholder in such business. The purpose of requiring advance notice is to afford the Board of Directors an opportunity to consider the qualifications of the proposed nominees or the merits of other stockholder proposals and, to the extent deemed necessary or desirable by the Board of Directors, to inform stockholders about those matters. Although the advance notice provisions do not give the Board of Directors any power to approve or disapprove of stockholder nominations or proposals for action by the Company, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if the procedures established by the By-laws are not followed and of discouraging or deterring a third party from

conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposals, without regard to whether consideration of such nominees or proposals might be harmful or beneficial to the Company and its stockholders.

Anti-Takeover Effects. The foregoing provisions of the Restated Certificate and By-laws could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. These provisions are intended to enhance the continuity and stability of the Board of Directors and the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change in control of the Company. These provisions are also designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. However, such provisions may discourage third parties from making tender offers for the Company's shares. As a result, the market price of the Common Stock may not benefit from any premium that might occur in anticipation of a threatened or actual change in control. Such provisions also may have the effect of preventing changes in the management of the Company. See "Risk Factors -- Effect of Certain Anti-Takeover Provisons."

DELAWARE ANTI-TAKEOVER LAW

Under Section 203 of the DGCL (the "Delaware anti-takeover law"), certain "business combinations" between a Delaware corporation whose stock generally is publicly traded or held of record by more than 2,000 stockholders and an "interested stockholder" are prohibited for a three-year period following the date that such stockholder became an interested stockholder, unless (i) the corporation has elected in its certificate of incorporation or bylaws not to be governed by the Delaware anti-takeover law (the Company has not made such an election), (ii) either the business combination or the transaction which resulted in the stockholder becoming an "interested stockholder" was approved by the board of directors of the corporation before the other party to the business combination became an interested stockholder, (iii) upon consummation of the transaction that made it an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the commencement of the transaction (excluding voting stock owned by directors who are also officers and stock held in employee stock plans in which the employees do not have a right to determine confidentially whether to tender or vote stock held by the plan), or (iv) the business combination was approved by the board of directors of the corporation and ratified by 66 2/3% of the voting stock which the

interested stockholder did not own. The three-year prohibition does not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of certain extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors. The term "business combination" is defined generally to include mergers or consolidations between a Delaware corporation and an interested stockholder, transactions with an interested stockholder involving the assets or stock of the corporation or its majority-owned subsidiaries and transactions which increase an interested stockholder's percentage ownership of stock. The term "interested stockholder" is defined generally as a stockholder who becomes the beneficial owner of 15% or more of a Delaware corporation's voting stock. Section 203 could have the effect of delaying, deferring or preventing a change in control of the Company.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Restated Certificate provides that directors of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for the unlawful payment of dividends or unlawful stock repurchases under Section 174 of the DGCL, as the same exists or hereinafter may be amended, or (iv) for any transaction from which the director derives an improper personal benefit. The provision does not apply to claims against a director for violations of certain laws, including federal securities laws. If the DGCL is amended to authorize the further elimination or limitation of directors' liability, then the liability of directors of the Company shall automatically be limited to the fullest extent provided by law. The Company's Restated Certificate and By-laws also contain provisions requiring the Company to indemnify the directors, officers, employees or other agents to the fullest extent permitted by the DGCL. In addition, the Company has entered into indemnification agreements with its current directors and executive officers. These provisions and agreements may have the practical effect in certain cases of eliminating the ability of stockholders to collect monetary damages from directors. The Company believes that these contractual agreements and the provisions in its Restated Certificate and By-laws are

necessary to attract and retain qualified persons as directors and officers.

TRANSFER AGENT

The Transfer Agent for the Common Stock is American Stock Transfer & Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for the Common Stock of the Company, and no prediction can be made as to the effect, if any, that market sales of shares or the availability of such shares for sale will have on the market price of the Common Stock prevailing from time to time. Sales of substantial amounts of Common Stock, or the perception that such sales could occur, could adversely affect the prevailing market price of the Common Stock and the ability of the Company to raise capital through a sale of its securities.

Upon completion of this offering, the Company will have 6,333,600 shares of Common Stock outstanding (7,103,190 shares if the Underwriters' over-allotment option is exercised in full). Of those shares, the 5,130,600 shares sold in this offering (5,900,190 shares if the Underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction (except as to affiliates of the Company) or further registration under the Securities Act. The remaining 1,203,000 shares, all of which are owned by IHS, are "restricted securities" within the meaning of Rule 144 under the Securities Act.

In general, under Rule 144 under the Securities Act as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities within the meaning of Rule 144 ("Restricted Securities") for at least two years, and including the holding period of any prior owner except an affiliate, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of Common Stock or the

average weekly trading volume of the Common Stock on the National Association of Securities Dealers Automated Quotation System during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned shares for at least three years (including any period of ownership of preceding non-affiliated holders), would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements. An "affiliate" is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or under common control with, such issuer.

Rule 144A under the Securities Act as currently in effect generally permits unlimited resales of certain Restricted Securities of any issuer provided that the purchaser is a qualified institution that owns and invests on a discretionary basis at least $100 million in securities (and in the case of a bank or savings and loan association, has a net worth of at least $25 million) or is a registered broker-dealer that owns and invests on a discretionary basis at least $10 million in securities. Rule 144A allows IHS to sell its shares of Common Stock held prior to this offering to such institutions and registered broker-dealers without regard to any volume or other restrictions. There can be no assurance that the availability of such resale exemption will not have an adverse effect on the trading price of the Common Stock.

The Company, its directors and officers and IHS have agreed not to offer to sell, sell, distribute, grant any option to purchase, pledge, hypothecate or otherwise dispose of, directly or indirectly, any shares of Common Stock or securities convertible into, or exercisable or exchangeable for, shares of Common Stock owned by them prior to the expiration of 180 days from the date of this Prospectus, except (i) with the prior written consent of the Smith Barney Inc., (ii) in the case of the Company, in certain limited circumstances, (iii) in the case of the directors and executive officers of the Company, for the exercise by such individuals of outstanding options and (iv) for the sale of shares in this offering. Beginning in January 1998, IHS may sell all 1,203,000 of its shares of Common Stock subject to the volume and other limitations of Rule 144. The Commission has proposed an amendment to Rule 144 under the Securities Act which, if adopted as currently proposed, would permit the sale of such 1,203,000 shares of Common Stock held by IHS beginning 181 days after the date of this Prospectus, rather than January 1998 (i.e., after the expiration of the "lock-up" period), subject to the volume and other limitations of Rule 144.

IHS has the right to include its shares in any future registration of

securities effected by the Company under the Securities Act. If the Company is required to include in a Company-initiated registration shares held by IHS pursuant to the exercise of its piggyback registration rights, such sales may have an adverse effect on the Company's ability to raise needed capital. See "Risk Factors -- Shares Eligible for Future Sale; Registration Rights," "Principal and Selling Stockholders" and "Description of Capital Stock -- Registration Rights."

The Company intends to file registration statements under the Securities Act registering the shares of Common Stock reserved for issuance upon the exercise of options granted under the Stock Incentive Plan and the Non-Employee Director Stock Option Plan and the options granted to the non-employee directors. See "Management -- Stock Options." These registration statements are expected to be filed soon after the date of this Prospectus and will become effective automatically upon filing. Accordingly, shares registered under such registration statements will be available for sale in the open market, unless such shares are subject to vesting restrictions with the Company.

UNDERWRITING

Under the terms and subject to the conditions contained in the Underwriting Agreement dated the date hereof, each Underwriter named below has severally agreed to purchase, and the Company and IHS have each agreed to sell to such Underwriter, shares of Common Stock which equal the number of shares set forth opposite the name of such Underwriter below.

UNDERWRITER	NUMBER OF SHARES
Smith Barney Inc.	
Alex. Brown & Sons Incorporated	
Donaldson, Lufkin & Jenrette Securities Corporation	
Total	5,130,600

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock offered hereby are subject to approval of certain legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any such shares are taken.

The Underwriters, for whom Smith Barney Inc., Alex. Brown & Sons Incorporated and Donaldson, Lufkin & Jenrette Securities Corporation are acting as the representatives (the "Representatives"), propose initially to offer part of the shares of Common Stock directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price that represents a concession not in excess of $ ____ per share under the public offering price. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ ____ per share to other Underwriters and to certain other dealers. After the initial public offering, the public offering price and such concessions may be changed by the Underwriters. The Representatives have informed the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to an aggregate of 769,590 additional shares of Common Stock at the public offering price set forth on the cover page hereof less underwriting discounts and commissions. The Underwriters may exercise such option to purchase additional shares solely for the purpose of covering over-allotments, if any, incurred in connection with the sale of the shares offered hereby. To the extent such option is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to the total number of shares in such table.

The Company and IHS have agreed to indemnify the Underwriters against certain liabilities under the Securities Act.

The Company, its directors and officers and IHS have agreed that, for a period of 180 days after the date of this Prospectus, they will not, without the

prior written consent of Smith Barney Inc., sell, offer to sell, contract to sell or otherwise dispose of any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, any shares of Common Stock, other than, in the case of the Company, in certain limited circumstances. Smith Barney Inc. may, in its sole discretion and at any time without prior notice, release all or any portion of the shares of Common Stock subject to the "lock-up" agreements.

Prior to this offering, there has not been any public market for the Common Stock. Consequently, the initial public offering price for the shares of Common Stock will be determined by negotiations among the Company, IHS and the Representatives. Among the factors to be considered in determining such price will be the history of and prospects for the Company's business and the industry in which it competes, an assessment of the Company's management, its past and present operations, its past and present earnings and the trend of such earnings, the prospects for earnings of the Company, the present

state of the Company's development, the general condition of the securities market at the time of this offering and the market prices and earnings of similar securities of comparable companies at the time of the offering. The estimated initial public offering price range set forth on the cover page of this Prospectus is subject to change as a result of market conditions and other factors. See "Risk Factors -- No Prior Public Market; Possible Volatility of Stock Price."

LEGAL MATTERS

Certain legal matters with respect to the legality of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Fulbright & Jaworski L.L.P., New York, New York. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine, New York, New York.

EXPERTS

The consolidated financial statements of Integrated Living Communities, Inc. and Subsidiaries; the financial statements of Lakehouse East (a partnership) for the month ended November 30, 1993; the financial statements of Carrington Pointe, Vintage Health Care Center Retirement Division and Terrace Gardens Tenants in Common, all of which are included in this Prospectus and elsewhere in the Registration Statement, have been audited by KPMG Peat Marwick LLP, independent certified public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of such firm as experts in accounting and auditing.

The financial statements of Lakehouse East (a partnership) for the year ended October 31, 1993, included in this Prospectus, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included here in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Commission in Washington, D.C. a Registration Statement on Form S-1 (together with all amendments thereto, the "Registration Statement"), under the Securities Act with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all the information set forth in the Registration Statement and the exhibits and schedules filed therewith, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference hereby is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and exhibits and schedules thereto. The Registration Statement filed by the Company, including exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Midwest Regional Office of the Commission located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511 and at 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material, when filed, may also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 upon payment of certain fees prescribed by the Commission. The Commission maintains a World Wide Web site on the Internet at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

INDEX TO FINANCIAL STATEMENTS

TERRACE GARDENS TENANTS IN COMMON

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Integrated Living Communities, Inc.:

We have audited the accompanying consolidated balance sheets of Integrated Living Communities, Inc. and subsidiaries (wholly-owned by Integrated Health Services, Inc.) (the Company) as of December 31, 1994 and 1995, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Integrated Living Communities, Inc. and subsidiaries (wholly-owned by Integrated Health Services, Inc.) as of December 31, 1994 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in notes 1 and 12 to the financial statements, in 1995 the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

KPMG Peat Marwick LLP

Baltimore, Maryland
June 5, 1996

INTEGRATED LIVING COMMUNITIES, INC. AND SUBSIDIARIES
(Wholly-Owned by Integrated Health Services, Inc.)
Consolidated Balance Sheets

<TABLE>
<CAPTION>

	DECEMBER 31,		JUNE 30,
	1994	1995	1996
			(UNAUDITED)
<S>	<C>	<C>	<C>
Assets			
Current assets:			
Cash and cash equivalents	$ 786,552	$ 413,362	$ 119,995
Accounts receivable	177,849	525,555	354,314
Prepaid expenses and other current assets	205,494	187,294	406,845

Total current assets	1,169,895	1,126,211	881,154
Assets limited as to use (note 3)	735,318	658,726	704,735
Property, plant and equipment, net (note 4)	14,773,241	23,751,175	50,626,382
Goodwill, less accumulated amortization of $43,805	1,573,586	--	--
Other assets	47,514	237,650	3,252,310
	$18,299,554	$25,773,762	55,464,581
Liabilities and Stockholder's Equity			
Current liabilities:			
Accounts payable	$ 356,188	510,353	828,438
Accrued expenses (note 8)	605,318	930,941	1,308,782
Total current liabilities	961,506	1,441,294	2,137,220
Note payable to parent company (note 14)	--	--	3,362,870
Refundable deposits (note 11)	4,311,490	5,243,332	5,398,096
Deferred income taxes (note 6)	620,435	--	324,106
Unearned entrance fees (note 1)	3,687,707	4,316,391	3,911,229
Total liabilities	9,581,138	11,001,017	15,133,521
Commitments and contingencies (notes 5, 9, 11, 13, and 14)			
Stockholder's equity:			
Preferred stock, $.01 par value. Authorized 5,000,000 shares; none issued and outstanding	--	--	--
Common stock, $.01 par value. Authorized 100,000,000 shares; issued and outstanding 3,897,900 shares	38,979	38,979	38,979
Additional paid-in capital	8,454,626	17,829,403	42,348,329
Retained earnings (deficit)	224,811	(3,095,637)	(2,056,248)
Net stockholder's equity	8,718,416	14,772,745	40,331,060
	$18,299,554	$25,773,762	$55,464,581

</TABLE>

See accompanying notes to consolidated financial statements.

INTEGRATED LIVING COMMUNITIES, INC. AND SUBSIDIARIES
(Wholly-Owned by Integrated Health Services, Inc.)
Consolidated Statements of Operations

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Monthly service and entrance fees	$5,009,512	$10,905,925	$15,123,557	$7,471,081	$10,567,605
Management services and other	230,516	738,558	1,145,734	547,499	727,394
Total revenues	5,240,028	11,644,483	16,269,291	8,018,580	11,294,999
Expenses:					
Facility operations	3,455,602	8,253,851	11,242,938	5,576,065	7,137,967
Facility rents - parent company (note 5)	855,963	1,466,243	2,430,397	1,215,199	1,309,088
Corporate administrative and general (note 7)	314,541	725,497	1,005,372	498,702	677,700
Depreciation and amortization	23,530	368,657	414,401	206,019	480,181
Loss on impairment of long-lived assets (note 12)	--	--	5,125,838	--	--
Total expenses	4,649,636	10,814,248	20,218,946	7,495,985	9,604,936
Earnings (loss) before income taxes	590,392	830,235	(3,949,655)	522,595	1,690,063
Federal and state income taxes (note 6)	230,253	311,338	(629,207)	201,199	650,674
Net earnings (loss)	$ 360,139	$ 518,897	$(3,320,448)	$ 321,396	$ 1,039,389
Earnings (loss) per common share	$ .09	$ .13	$ (.85)	$ .08	$ .27

</TABLE>

See accompanying notes to consolidated financial statements.

INTEGRATED LIVING COMMUNITIES, INC. AND SUBSIDIARIES
(Wholly-Owned by Integrated Health Services, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995
AND SIX MONTHS ENDED JUNE 30, 1996

<TABLE>
<CAPTION>

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1992.....	$38,979	$ 641,161	$ (654,225)	$ 25,915
Net earnings.....	--	--	360,139	360,139
Net capital contributions from parent company.....	--	6,900,082	--	6,900,082
Balance at December 31, 1993.....	38,979	7,541,243	(294,086)	7,286,136
Net earnings.....	--	--	518,897	518,897
Net capital contributions from parent company.....	--	913,383	--	913,383
Balance at December 31, 1994.....	38,979	8,454,626	224,811	8,718,416
Net loss.....	--	--	(3,320,448)	(3,320,448)
Net capital contributions from parent company.....	--	9,374,777	--	9,374,777
Balance at December 31, 1995.....	38,979	17,829,403	(3,095,637)	14,772,745
Net earnings (unaudited).....	--	--	1,039,389	1,039,389
Net capital contributions from parent company (unaudited).....	--	24,518,926	--	24,518,926
Balance at June 30, 1996 (unaudited)	$38,979	$42,348,329	$(2,056,248)	$40,331,060

</TABLE>

See accompanying notes to consolidated financial statements.

INTEGRATED LIVING COMMUNITIES, INC. AND SUBSIDIARIES
(Wholly-Owned by Integrated Health Services, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net earnings (loss).....	$ 360,139	$ 518,897	$(3,320,448)	$ 321,396	$ 1,039,389
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:					
Deferred income taxes.....	54,127	162,871	(620,435)	(139,136)	324,106
Loss on impairment of long-lived assets.....	--	--	5,125,838	--	--
Depreciation and amortization.....	23,530	368,657	414,401	206,019	480,181
Decrease (increase) in accounts receivable ...	(80,272)	102,777	(335,601)	(337,242)	171,241
Decrease (increase) in prepaid expenses and other current assets.....	4,992	(170,051)	31,720	37,649	(219,551)
Earned entrance fees.....	(87,675)	(679,319)	(680,409)	(285,632)	(495,432)
Entrance fees received.....	80,550	768,798	1,491,593	864,926	383,250
Increase (decrease) in accounts payable and accrued expenses.....	(165,781)	532,662	264,869	(201,199)	695,926
Net cash provided by operating activities	189,610	1,605,292	2,371,528	466,781	2,379,110
Cash flows from financing activities:					
Net capital distributions to parent company ...	(168,472)	(427,127)	(2,536,614)	(87,509)	(2,651,074)
Refundable deposits received.....	57,750	505,865	1,456,709	895,760	242,250
Refunds of deposits and entrance fees.....	(62,275)	(370,769)	(707,367)	(201,966)	(380,466)
Net cash (used) by financing activities	(172,997)	(292,031)	(1,787,272)	606,285	(2,789,290)
Cash flows from investing activities:					

</TABLE>

Property, plant and equipment additions.....	(11,627)	(358,375)	(843,902)	(232,279)	(185,388)
Decrease (increase) in other assets.....	--	--	(190,136)	16,864	348,210
Decrease (increase) in assets limited as to use.....	(3,817)	(169,503)	76,592	92,136	(46,009)
Net cash (used) by investing activities	(15,444)	(527,878)	(957,446)	(123,279)	116,813
Increase (decrease) in cash.....	1,169	785,383	(373,190)	949,787	(293,367)
Cash, beginning of period.....	--	1,169	786,552	786,552	413,362
Cash, end of period.....	$ 1,169	$ 786,552	$ 413,362	$1,736,339	$ 119,995
Noncash investing and financing activities -- acquisitions of facilities: (note 2)					
Assets of businesses acquired, net.....	$7,068,554	$1,340,510	$11,911,391	--	$27,170,000
Capital contributed by parent company.....	$7,068,554	$1,340,510	$11,911,391	--	$27,170,000

</TABLE>

See accompanying notes to consolidated financial statements.

INTEGRATED LIVING COMMUNITIES, INC AND SUBSIDIARIES

(Wholly-Owned by Integrated Health Services, Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1993, 1994 AND 1995
AND JUNE 30, 1995 AND 1996

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

In November 1995, Integrated Living Communities, Inc. (ILC or the Company) was formed through a corporate reorganization whereby the assets and liabilities of the Integrated Living Communities Division (the Division) of Integrated Health Services, Inc. (IHS or the Parent Company) were transferred or leased from IHS subsidiaries to ILC and its subsidiaries. ILC was formerly Kingsley Place Retirement, Inc. until its present name was adopted in January 1996. The consolidated financial statements of the Company represent the accounts of the assisted living and other senior living facilities comprising the Division and operating within the following wholly-owned subsidiaries of IHS:

<TABLE>
<CAPTION>

FACILITY	DATE OF ACQUISITION AND LOCATION	OWNER/LESSEE AND IHS OPERATING ENTITY	OWNED OR LEASED
<S>	<C>	<C>	<C>
West Palm Beach Retirement, a 34-unit assisted living facility	December 1, 1993 West Palm Beach, Florida	Central Park Lodges, Inc.	Leased
Waterside Retirement Estates (formerly Lakehouse East), a 164-unit continuing care retirement community	December 1, 1993 Sarasota, Florida	F.L.C. Lakehouse, Inc.	Owned
The Homestead, a 50-unit assisted living and adult day care facility	March 18, 1994 Denton, Maryland	I.H.S. of Denton, Inc.	Owned
Treemont Retirement Community, a 231-unit continuing care retirement community, Alzheimer's and adult day care facility	February 9, 1989 Dallas, Texas	Cambridge Group of Texas, Inc	Leased
The Shores, a 260-unit assisted living, continuing care retirement community and Alzheimer's care facility	September 1, 1994 Bradenton, Florida	Integrated Health Services of Lester, Inc.	Leased
Cheyenne Place Retirement, a 95-unit congregate care facility	September 1, 1994 Colorado Springs, Colorado	Integrated Health Services of Lester, Inc.	Leased

Carrington Pointe, a 172-unit congregate care and assisted living facility	December 15,1995 Fresno, California	Integrated Management - Carrington Pointe, Inc.	Owned

</TABLE>

Also, the statements include accounts of Integrated Living Communities Retirement Management, Inc., ("ILCRM"), which manages eight facilities, two of which are scheduled to open in 1996.

Two of the Company's facilities are located on campuses containing both assisted-living facilities and skilled-nursing facilities which share certain operating expenses. The facilities are owned by subsidiaries of IHS and have been leased to the Company (see note 5). Effective June 1, 1996, the Company and an IHS subsidiary entered into separate condominium agreements and shared services agreements for these facilities as discussed in note 14. Allocations of various operating expenses have been made by IHS on a monthly basis in order to present the separate operating expenses of the assisted-living facilities and skilled-nursing facilities. The accompanying financial statements reflect the revenues and expenses (including such allocations) related to the assisted-living facilities only.

The consolidated financial statements reflect the historical accounts of the assisted living and other senior living facilities, including allocations of general and administrative expenses from the IHS corporate office to the individual facilities. Such corporate office allocations, calculated as a percentage of revenue, are based on determinations that management believes to be reasonable. However, IHS has operated certain other businesses and has provided certain services to the Company, including financial, legal, accounting, human resources and information systems services. Accordingly, expense allocations to the Company may not be representative of costs of such services to be incurred in the future (see note 7). Also, the consolidated financial statements reflect adjustments made by IHS to establish a new basis of accounting for the assets and liabilities of businesses acquired, using the "push down" approach to accounting for business combinations under the purchase method. The effect of these adjustments was to increase the cost of goodwill, property, plant and equipment by approximately $6.2 million at December 31, 1995 (before the loss on impairment of long-lived assets (note 12) and to increase depreciation and amortization expense by $13,000 in 1993 and $140,000 in each of 1994 and 1995.

Revenue Recognition

Resident units are rented on a month to month basis and monthly service fee revenue is recognized in the months the units are occupied. Service fees paid by residents for assisted-living and other related services are recognized in the period such services are rendered as other revenue. In some cases, residents of the Waterside Retirement Estates facility have entered into life-care contracts whereby the resident pays an entrance fee as well as a monthly rental payment.

Under most life-care contracts (membership agreements), entrance fees are partially refundable to the resident. The minimum refund amount pursuant to the resident's membership agreement (generally 50% of the total entrance fee) is payable to the resident or the resident's estate within 120 days of termination of the agreement, which may occur at any time after 30 days notice. In addition, a portion of the remainder of the entrance fee is payable if the contract is terminated within 24 months of move-in, determined on a declining pro rata basis. The minimum refund amount and the estimated amount of the remainder which is expected to be refunded based on past experience of the facility are accounted for as refundable deposit liabilities. The remaining amount of the entrance fees is accounted for as deferred revenue under the caption "unearned entrance fees." Such deferred revenue is amortized to operations of future periods based on the estimated life of the resident, adjusted annually based on the actuarially determined estimated remaining life expectancy of each resident, on the straight-line method. Unamortized deferred revenue is recorded as revenue upon the resident's death or contract termination. Earned entrance fees on life-care contracts were $87,675 in 1993, $679,319 in 1994, and $680,409 in 1995.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Land improvements	25 years
Equipment	10 years
Leasehold improvements	Term of the lease

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). The Company was not a separate taxable entity during the three years ended December 31, 1995; however, under SFAS 109 the current and deferred tax expense has been allocated among the members of the IHS controlled corporate group including the Company and its subsidiaries.

Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments with an original maturity of three months or less. Under a cash management facility provided by the Parent Company, the Company's operating cash balances of the facilities are generally transferred to a centralized account and applied to reduce additional paid-in capital. The Company's cash needs for operating and other purposes are similarly provided through an increase to additional paid-in capital. However, in 1994 and 1995 the Waterside Retirement Estates facility transferred cash to the Parent Company only to the extent needed to satisfy cash needs for operating expenses. The excess of cash receipts over cash disbursements of this facility is reflected in the cash and cash equivalents account as of December 31, 1994 and 1995.

Obligation to Provide Future Services

For life-care contracts, the Company annually calculates the present value of the net cost of future service and use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future service and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future service and use of facilities) with a corresponding charge to income.

Earnings per Common Share

Earnings per share is computed based on the weighted average number of common and common equivalent shares outstanding during the periods. Common stock equivalents include options to purchase common stock, assumed to be exercised using the treasury stock method. Outstanding shares retroactively reflect the stock split and related surrender of common shares referred to in note 10.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Disclosures about Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, prepaid expenses and other current assets, other assets, assets limited as to use funds, accounts payable, and accrued expenses approximate fair value because of the short-term maturity of these instruments.

The carrying amounts of refundable deposits may not approximate fair value since these liabilities are not short-term in nature. However, since these liabilities do not have specified maturity dates, management believes it is not practicable to determine their fair value.

Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets. In December 1995, as part of a company- wide adoption by IHS, the Company adopted SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". In accordance with the provisions of SFAS No. 121, if there is an indication that the carrying value of an asset is not recoverable, the Company determines the amount of impairment loss by comparing the carrying amount of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent financial performance and projected cash flows of its facilities using standard industry valuation techniques, including the use of independent appraisals when considered necessary. If an asset tested for recoverability was acquired in a business combination accounted for by using the purchase method, the related goodwill is included as part of the carrying value and evaluated as described above in determining the recoverability of that asset. Recoverability is determined by estimating the projected undiscounted cash flows, excluding interest, of the related business activities.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of the affected assets is allocated over their remaining lives. Estimation of value and future benefits of intangible assets is made based upon the related projected undiscounted future cash flows, excluding interest payments.

Prior to adoption of SFAS No. 121 in 1995, the Company performed its analyses of impairment of long-lived assets by consideration of the projected undiscounted cash flows on an entity-wide basis, except for goodwill for which the policy is unchanged.

The effect of the adoption of SFAS No. 121 in December 1995 required the Company to perform this analysis on a facility-by-facility basis. This analysis resulted in the recognition of a loss on impairment of long-lived assets (see note 12). If the facility-by-facility analysis had been adopted prior to December 1995, the Company may have incurred the loss on impairment of long-lived assets prior to December 1995.

Interim Financial Information

The unaudited consolidated financial information as of June 30, 1996 and for the six months ended June 30, 1996 and 1995 has been prepared in conformity with the accounting principles and practices reflected in the audited financial statements included herein. In the opinion of the Company, the unaudited consolidated financial information contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position, results of operations and cash flows for the periods indicated.

(2) BUSINESS ACQUISITIONS

During the three-year period ended December 31, 1995, IHS acquired six of the seven assisted-living and other senior living facilities which are included in the consolidated financial statements at December 31, 1995. Each acquisition was accounted for by the purchase method; accordingly, the assets and liabilities of the acquired facilities were recorded at their estimated fair values. The results of operations of the facilities acquired have been included in the consolidated financial statements from the respective dates of the acquisitions.

The total costs, by acquisition, have been allocated to the specific assets

and liabilities as follows:

<TABLE>
<CAPTION>

	WEST PALM BEACH	WATERSIDE (LAKEHOUSE EAST)	THE HOMESTEAD	THE SHORES	CARRINGTON POINTE
<S>	<C>	<C>	<C>	<C>	<C>
Accounts receivable, net.....	$1,086	$ 136,597	$ 36,756	$ --	$ 12,105
Assets limited as to use.....	--	561,998	--	--	--
Property, plant and equipment.....	--	13,382,609	1,369,012	--	12,100,685
Goodwill (40 year useful life).....	--	1,617,391	--	--	--
Other assets.....	--	40,435	--	47,514	13,520
Accounts payable and accrued expenses		(481,853)	(65,258)	(47,514)	(214,919)
Refundable deposits.....	--	(3,966,688)	--	--	--
Deferred income taxes.....	--	(403,437)	--	--	--
Unearned entrance fees.....	--	(3,819,584)	--	--	--
Total, representing capital contributed by Parent Company.....	$1,086	$ 7,067,468	$1,340,510	$ --	$11,911,391

</TABLE>

On December 1, 1993, IHS acquired 100% of the common stock of Central Park Lodges, Inc. (CPL). Among the facilities acquired in this transaction was West Palm Beach, a 120-bed skilled nursing facility and 34 unit assisted-living facility. The Company leases the assisted-living portion of the facility from IHS (see notes 5 and 14).

In connection with the December 1, 1993 acquisition of CPL, IHS originally obtained the 60.5% controlling interests in two partnerships, Lakehouse East, which owns and operates a retirement facility including an assisted care wing, 21 garden apartments and 18 villas, and Lakehouse West, which owns and operates an adjacent retirement facility consisting of a single building. The 39.5% minority partners subsequently filed a suit against IHS and CPL alleging that the CPL acquisition triggered a provision in the partnership agreements requiring the sale of the minority interests in the partnership. Settlement of the suit was subsequently reached pursuant to a Partition Agreement between the parties. Under this agreement, an IHS subsidiary became the sole owner of Lakehouse East and the former minority partners became the sole partners of the partnership which is the sole owner of Lakehouse West. These events have been accounted for as if the settlement had occurred effective as of the December 1, 1993 acquisition date. Accordingly, the financial statements include the operations of Lakehouse East and exclude the operations of Lakehouse West from December 1, 1993.

On March 18, 1994 IHS acquired The Homestead, a 50 unit assisted-living and adult daycare facility for a total cost of approximately $1.3 million adjusted for certain accrued liabilities, prepayments and deposits assumed by IHS. Prior to the purchase IHS had managed the facility under a management agreement with the prior owner.

On August 31, 1994 Integrated Health Services of Lester, Inc., an IHS subsidiary, entered into separate facility operating leases for the 260-unit The Shores and 95-unit Cheyenne Place facilities. Integrated Health Services of Lester, Inc. leases these facilities, including the related equipment, furniture and fixtures, and subleases them to the Company (see note 5.)

On December 15, 1995, IHS acquired Carrington Pointe, a 172 unit congregate care and assisted-living facility for a total cost of approximately $11,900,000. Prior to the acquisition, IHS had managed the facility under a management agreement with the prior owner. The acquisition was recorded effective as of December 31, 1995; accordingly, results of operations for the period December 15, 1995 to December 31, 1995 are not included in the financial statements. The effect of not including this period is not material to the results of operations of the Company. The assets acquired and liabilities assumed have been adjusted to reflect the new basis of accounting and are included in the December 31, 1995 balance sheet of the Company.

The following summary, prepared on a pro forma basis, combines the results of operations as if the acquisitions described above, certain acquisitions consumated subsequent to December 31, 1995 and certain probable acquisitions (see note 14) had been consummated as of January 1, 1994, after including the effect of certain adjustments such as depreciation on the new basis of assets

acquired. The pro forma amounts also include adjustments to corporate administrative and general expenses to reflect management's estimate of the increase in such costs as if the Company had operated on a stand-alone basis during these years.

	YEARS ENDED DECEMBER 31,	
	1994	1995
Revenues.....	$22,514,216	$27,452,000
Net loss.....	$ (221,000)	$(3,064,000)
Net loss per common share.....	$ (.05)	$ (.63)

The unaudited pro forma results are not necessarily indicative of what actually might have occurred if the acquisitions had been completed as of the beginning of the periods presented. In addition, they are not intended to be a projection of future results of operations and do not reflect any of the business management changes that might be achieved from combined operations.

(3) ASSETS LIMITED AS TO USE

A portion of the entrance fee deposits on life-care contracts is held in escrow pursuant to Section 651.035 of the statutes of the state of Florida. Such minimum liquid reserve funds consist of cash equivalents that are required to be maintained by continuing care facilities. Balances in such reserve funds of $626,618 and $657,126 at December 31, 1994 and 1995, respectively, exceed the required minimum liquid reserves at such dates. The remainder represents entrance fee deposits held by a trustee pursuant to Florida law.

(4) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,		
	1994	1995	JUNE 30, 1996
			(UNAUDITED)
<S>	<C>	<C>	<C>
Land and improvements.....	$ 5,166,862	$ 4,010,343	$ 4,012,717
Building and improvements.....	9,332,822	18,828,646	46,120,290
Equipment.....	592,027	1,312,103	1,340,742
Construction in progress.....	5,574	214,332	227,539
Leasehold improvements.....	18,570	102,331	121,855
	15,115,855	24,467,755	51,823,143
Less accumulated depreciation and amortization.....	342,614	716,580	1,196,761
Total.....	$14,773,241	$23,751,175	$50,626,382

</TABLE>

(5) LEASES

The Company has leased four assisted-living facilities from IHS. With respect to the West Palm Beach and Treemont facilities, IHS subsidiaries own the premises of both skilled nursing and assisted living facilities, operate the respective skilled nursing facilities, and lease the assisted living facilities to the Company. Rent expense included in the financial statements under these intercompany leases was $855,963 in 1993, $999,152 in 1994 and $1,029,126 in 1995. The Company has obtained condominium interests in these facilities effective June 1, 1996 (see note 14).

Cheyenne Place and The Shores are leased from Litchfield Asset Management Corporation by Integrated Health Services of Lester, Inc. (a subsidiary of IHS) under separate leases. The Company entered into separate subleases for these facilities with an IHS subsidiary effective June 1, 1996. The initial term of the subleases is seven years and provide for various renewal terms at the option of ILC at fair market rentals. Prior to June 1, 1996, the Company was allocated rentals based on the lease between Litchfield Asset Management Corporation and IHS. Rent expense included in the financial statements under these leases was

none in 1993, $467,091 in 1994 and $1,401,271 in 1995. Minimum rent payments under these noncancellable subleases are summarized as follows for the years ended December 31:

1996	$ 1,588,769
1997	1,722,696
1998	1,722,696
1999	1,722,696
2000	1,722,696
Thereafter	4,163,182
	$12,642,735

(6) INCOME TAXES

The Company is included in IHS's consolidated federal income tax return. The allocated provision for income taxes on earnings before income taxes is summarized below:

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Current...	$176,126	$148,467	$ (8,772)	$ 340,335	$326,568
Deferred .	54,127	162,871	(620,435)	(139,136)	324,106
	$230,253	$311,338	$(629,207)	$ 201,199	$650,674

The amount computed by applying the Federal corporate tax rate of 34% to earnings before income taxes is reconciled to the provision for income taxes as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,	
	1993	1994	1995	1995	1996
<S>	<C>	<C>	<C>	(UNAUDITED) <C>	<C>
Income tax computed at statutory rates	$200,733	$282,280	$(1,342,883)	$177,682	$574,621
State income taxes, net of Federal tax benefit.....	29,287	31,053	(175,233)	24,491	75,854
Other.....	233	(1,995)	(2,501)	(974)	199
Valuation allowance adjustment.....	--	--	891,410	--	--
	$230,253	$311,338	$ (629,207)	$201,199	$650,674

</TABLE>

Deferred income tax liabilities are summarized as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,			JUNE 30,
	1993	1994	1995	1996
<S>	<C>	<C>	<C>	(UNAUDITED) <C>
Excess of book over tax basis of assets.....	$ 1,981,232	$ 2,032,363	$ 798,083	$ 966,201
Unearned entrance fees.....	(1,416,228)	(1,382,890)	(1,661,811)	(1,505,823)
Accrued expenses.....	(77,999)	(29,038)	(27,682)	(27,682)
Other.....	(29,441)	--	--	--
	457,564	620,435	(891,410)	(567,304)
Valuation allowance.....	--	--	891,410	891,410

Deferred income tax liability.....	$ 457,564	$ 620,435	$ --	$ 324,106

</TABLE>

The provision for Federal and state income taxes is recorded using the overall effective tax rate of the consolidated group applied to the Company's pre-tax earnings before adjustment for permanent differences. Deferred income tax (assets) liabilities are recorded for the Company's temporary difference using the same effective tax rate. The difference between the total provision for income tax and the deferred income tax provision, both determined as discussed above, represents income taxes currently payable to the parent company and has been accounted for as additional paid-in capital. The provision for income taxes, deferred income taxes and income taxes currently payable may vary from such amounts that would have been computed on a stand-alone basis.

(7) OTHER RELATED PARTY TRANSACTIONS

Corporate administrative and general expenses represent management fees for certain services, including financial, legal, accounting, human resources and information systems services, provided by IHS pursuant to a management services agreement. Management fees have been provided at 6% of total revenues of each facility, except for the Lakehouse East partnership facility which has provided management fees at 9% of monthly service fees revenue pursuant to the partnership agreement in effect for the period from December 1, 1993 to October 31, 1995 (of which approximately $224,000 was paid to an IHS subsidiary and approximately $224,000 was paid to the other partner).

Management fees charged by IHS at 6% of total revenues have been determined based on an allocation of IHS's corporate general and administrative expenses, which apply to all IHS divisions, including the Integrated Living Communities Division. Such allocation has been made because specific identification of expenses is not practicable. Management believes that this allocation method is reasonable. However, management estimates that the Company's corporate administrative and general expenses on a stand alone basis (i.e. expenses that would have been incurred if the Company had operated as an unaffiliated entity) would have been approximately $3.9 million in 1995.

(8) ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	DECEMBER 31, 1994	DECEMBER 31, 1995	JUNE 30, 1996 (UNAUDITED)
Accrued salaries and wages .	$188,382	$307,327	$ 392,849
Refundable security deposits.....	291,807	370,331	409,583
Other accrued expenses	125,129	253,283	506,350
	$605,318	$930,941	$1,308,782

(9) NOTE RECEIVABLE

Integrated Living Communities Retirement Management, Inc. (ILCRM), a subsidiary of the Company, entered into loan and security agreements dated August 7, 1995 and amended on February 29, 1996 and July 9, 1996 with an individual, the president of Elderly Development Company, Inc. Under the agreements, ILCRM has agreed to loan up to $1,000,000 to the individual at an annual interest rate of 11.75%. The balance of the loan at December 31, 1995 of $130,000 is included in other assets. The loan is for the pre-development activities of five assisted living facilities in California. The loan and security agreement provide that ILCRM is entitled to the exclusive right to manage the facilities upon the completion of construction. Also, the individual has assigned the rights related to real estate purchase agreements to ILCRM. The loan and security agreements provide ILCRM a security interest in the borrower's pre-development plans, land contracts, and all licenses, permits and governmental approvals. The principal balance of the loan, and all accrued and unpaid interest thereon, is payable on demand.

(10) CAPITAL STOCK

As of December 31, 1995 and 1994, the Company was authorized to issue up to 1,000 shares of common stock, $.01 par value, of which 100 shares were issued

and outstanding. In June 1996, the Company's certificate of incorporation was restated to increase the authorized shares to 100,000,000 shares of common stock, $.01 par value and 5,000,000 shares of preferred stock, $.01 par value. Also, the Company effected a 49,610-for-one common stock split (in the form of a stock dividend). In August 1996, the Parent Company surrendered 1,063,100 shares of common stock to the Company. Share and per share data for all periods presented in the financial statements give retroactive effect to the revised shares, the common stock split and the related surrender of common shares referred to above. Accordingly, 3,897,900 shares of common stock are reflected as issued and outstanding during the three years ended December 31, 1995.

The preferred stock may be issued from time to time in one or more series as determined by the Board of Directors. The Board of Directors is authorized to issue the shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The preferred stock could be issued by the Board of Directors with voting and conversion rights that could adversely affect the voting power and other rights of the holders of the common Stock. In addition, because the terms of the preferred stock may be fixed by the Board of Directors of the Company without stockholder action, the preferred stock could be issued quickly with terms calculated to defeat or delay a proposed takeover of the Company, or to make the removal of the management of the Company more difficult.

The Company has adopted two stock option plans. The Stock Incentive Plan provides for options to be granted to certain employees and consultants at an exercise price per share not less than 100% of fair market value at the date of grant (110% in certain cases). In addition, the Company adopted a Stock Option Plan for Non-Employee Directors which provides for the grant of options at an exercise price per share equal to the fair market value on the date of grant. The Board of Directors has authorized the issuance of 950,040 shares of common stock under the plans. Stock options to purchase an aggregate of 450,500 shares of common stock under the Stock Incentive Plan have been granted through June 30, 1996. On June 10, 1996, stock options to purchase an aggregate of 405,000 shares of Common Stock in three equal installments, commencing June 10, 1997, were granted to five directors of the Company.

(11) LIFE-CARE CONTRACTS

The obligation under life-care contracts to provide future service and use of facilities is calculated as the present value of the net future service and use costs. Unamortized deferred revenue exceeded the net present value of such net costs at December 31, 1994 and 1995; accordingly, there was no future service liability recorded in connection with the life-care contracts at December 31, 1994 and 1995.

In accordance with the contractual arrangements under certain life-care contracts, a minimum amount (generally 50%) of the entrance fee is refundable and a portion of the entrance fee is refundable if the contract is terminated within a specified time period (potentially refundable entrance fees). Refundable deposits represent the minimum refunds under the membership agreements and the estimated amount expected to be refunded of the potentially refundable entrance fees, based on past experience with contract terminations. Potentially refundable entrance fees were $871,270 and $882,779 at December 31, 1994 and 1995, respectively, of which $187,281 and $215,627, respectively, is included in refundable deposits; the remainder is included in unearned entrance fees. Refunds paid were $62,275 for the period from December 1, 1993 to December 31, 1993, $370,769 in 1994, and $707,367 in 1995, including minimum refunds of $62,275 in 1993, $343,819 in 1994 and $553,213 in 1995.

(12) LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

The Company implemented Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 121 in connection with the Parent Company's implementation in 1995. In connection with the adoption of SFAS No. 121, the Company performed an evaluation of the recent financial performance and projected undiscounted cash flows of each of its facilities. Using a recent independent appraisal, the Company estimated the fair market value of one of its facilities and determined that the carrying value of certain long lived assets, including goodwill, land, buildings and improvements, exceeded the fair values. The excess carrying value of $5,125,838 (of which $1,533,152 represented goodwill and $3,592,686 represented buildings and improvements) was written off and is included in the statement of operations for 1995 as a loss on impairment

of long-lived assets.

(13) LEGAL PROCEEDINGS

The Company is involved in various legal proceedings that are incidental to the conduct of its business. Management believes that pending or threatened legal proceedings will have no material adverse effect on the Company's financial condition or results of operations.

(14) EVENTS SUBSEQUENT TO DECEMBER 31, 1995

Acquisitions

On January 29, 1996, an IHS subsidiary purchased the Vintage Health Care Center, a 110-unit skilled nursing, 43-unit assisted-living and a 62-unit congregate care facility located in Denton, Texas and leased the assisted living and Congregate care portion to the Company. The Company and the IHS

subsidiary subsequently entered into a condominium agreement (discussed more fully below) for the Vintage Facility whereby the Company owns and operates the assisted-living and congregate care portion and IHS owns and operates the skilled-nursing portion. Between January 29, 1996 and the effective date of the condominium agreement (June 1, 1996), ILC leased the assisted living and congregate care portion from IHS at a monthly rental of $35,000.

Effective June 1, 1996, the Company and an IHS subsidiary entered into separate condominium agreements and shared services agreements for the West Palm Beach, Treemont and Vintage facilities whereby the Company owns and operates the assisted living and congregate care portions and IHS owns and operates the skilled-nursing portion of the facilities. Previously, these facilities were leased from IHS. In connection with the condominium agreements, IHS made capital contributions of approximately $27.2 million, representing the lesser of IHS's carryover basis in the assisted living and congregate care assets contributed or the estimated fair market value of such assets based on independent appraisals. The capital contributions were $2,260,000 for West Palm Beach, $21,450,000 for Treemont and $3,460,000 for Vintage. The Company cannot transfer its condominium interest without the prior consent of IHS. The IHS facility in which the Treemont facility is located is subject to a mortgage. Should IHS default on its obligations under the mortgage, the lender could foreclose on the mortgage which could materially adversely affect the Company's business, results of operations and financial condition.

Shared services agreements require that IHS provide laundry, housekeeping, building maintenance, landscaping, emergency call services and common area maintenance for a combined total of $61,482 per month. In addition, IHS will provide dietary services to the Company for between $8 and $10 per resident per day. Utilities and real estate costs will be allocated among the condominium units according to pre-defined percentages. Finally, at the Vintage, IHS and the Company will share the services of the executive director; the Company will reimburse IHS for 30% of the executive director's salary, benefits and other expenses.

Effective July 1, 1996, the Company entered into a lease agreement for Homestead of Garden City, a 35 unit assisted living facility in Garden City, Kansas. Effective July 17, 1996, the Company entered into a lease agreement for Homestead of Wichita, a 35 unit assisted living facility located in Wichita, Kansas. The initial term of each lease is 15 years with three five-year renewal options. Annual rent under each lease is $287,500, subject to increases based on the consumer price index.

The Company acquired the Cabot Pointe facility in August 1996 for $2.7 million with funds borrowed from IHS. The Company intends to sell and lease it back from a real estate investment trust in September 1996. Cabot Pointe is a 35 unit assisted living and alzhiemers facility located in Bradenton, Florida.

The Company has entered into a definitive agreement to acquire ownership of Terrace Gardens, a 258 unit assisted living and senior living facility which also includes a 100 bed nursing facility. The purchase price for the facility is $12.2 million. The acquisition is scheduled to close simultaneously with the initial public offering of ILC common stock. There can be no assurance that this acquisition and/or the sale/leaseback financing of Cabot Pointe will close as scheduled or at all.

Note Receivable

Integrated Living Communities Retirement Management, Inc. (ILCRM), a

subsidiary of IHS and on behalf of the Division, entered into a Revolving Credit and Security Agreement and a Revolving Credit Note dated March 18, 1996 and amended on July 12, 1996 with an assisted living facility development company, The Homestead Company, L.C., a Kansas limited liability company. Under such agreement, ILCRM has agreed to loan up to $1,000,000, on a revolving basis, to be used for the sole purpose of developing four assisted living facilities in Kansas and six facilities in Nebraska. The note shall bear interest at an annual rate of 11.75%. The Revolving Credit and Security Agreement provides ILCRM a security interest in the borrower's interest in all development plans, assignments of land

contracts, and all licenses, permits and governmental approvals. The note is also secured by a $250,000 personal guaranty by the president of The Homestead Company, L.C. The entire outstanding principal balance of the loan, and all accrued and unpaid interest thereon, is payable on demand. Also, the individual has assigned the rights related to real estate purchase agreements to ILCRM.

Employment Agreements

The Company has employment agreements with four of its officers which provide annual base salaries aggregating $765,000. In addition, the officers will receive bonuses, if the Company attains certain performance goals, as well as health, life, disability, and personal unbrella insurance and an annual automobile allowance. The agreements provide the officers the right to participate in any executive retirement and equity-based compensation programs established by the Company in the discretion of the Compensation Committee of the Board of Directors.

Revolving Credit Note

Effective June 30, 1996, IHS has made available to the Company a $75 million revolving credit facility. Borrowings under the facility bear interest at the rate of 14% per annum. All outstanding borrowings, together with all accrued but unpaid interest, are due at the earlier of (i) the closing of an initial public offering by ILC or (ii) June 30, 1998. At June 30, 1996, $3.4 million was outstanding under this facility. Borrowings under this facility have been used to finance the Company's development activities.

INDEPENDENT AUDITORS' REPORT

The Partners
F.L.C. Lakehouse, Inc.,
Don Blivas, Janice Blivas, Fred Fiala
and John Rowe
d/b/a Lakehouse East
Sarasota, Florida:

We have audited the accompanying statements of operations and cash flows for the year ended October 31, 1993 of F.L.C. Lakehouse Inc., Don Blivas, Janice Blivas, Fred Fiala, and John Rowe d/b/a Lakehouse East (a Partnership). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Lakehouse East for the year ended October 31, 1993, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Tampa, Florida
May 15, 1995

LAKEHOUSE EAST
(A PARTNERSHIP)
STATEMENT OF OPERATIONS

	Year ended October 31, 1993
Revenues	
Maintenance fees	$2,308,710
Earned entrance fees	864,941
Interest	13,053
Other	60,715
Total revenues	3,247,419
Expenses	
Resident care	1,555,138
Selling, general and administrative	1,153,555
Utilities	231,033
Depreciation	443,352
Interest	143,091
Total expenses	3,526,169
Net loss	$ (278,750)

See notes to financial statements.

LAKEHOUSE EAST
(A PARTNERSHIP)
STATEMENT OF CASH FLOWS

	Year ended October 31, 1993
Operating Activities	
Net loss	$ (278,750)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	443,352
Earned entrance fees	(864,941)
Entrance fees received	1,009,948
Changes in operating assets and liabilities:	
Increase in accounts receivable	(10,595)
Decrease in prepaid expenses and other assets	4,084
Increase in accounts payable and accrued expenses	133,210
Increase in accrued employees' compensation and benefits	65,644
Decrease in accrued interest	(23)
Net cash provided by operating activities	501,929
Investing Activities	
Purchases of property and equipment	(155,637)
Increase in assets whose use is limited	(20,548)
Net cash used in investing activities	(176,185)
Financing Activities	
Advances to Partners	(60,409)
Advances from affiliate	112,505
Principal payments on long-term debt	(500,000)
Refundable deposits received	576,303
Refundable deposits paid	(492,700)
Net cash used in financing activities	(364,301)
Decrease in cash	(38,557)
Cash, beginning of year	181,744
Cash, end of year	$ 143,187

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See notes to financial statements.

LAKEHOUSE EAST

(A PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

F.L.C. Lakehouse, Inc., Don Blivas, Janice Blivas, Fred Fiala, and John Rowe d/b/a Lakehouse East (the "Partnership") is a partnership organized and existing under the laws of Florida. The principal business is the management and maintenance of a life care facility. The financial statements include only those assets, liabilities and results of operations which relate to the business of the Partnership. The statements do not include any assets, liabilities, revenues or expenses attributable to the partners' individual activities.

Partners	Ownership Interests October 31, 1993
F.L.C. Lakehouse, Inc.	60.50%
Donald Blivas	16.50
Janice Blivas	9.00
John Rowe	7.50
Fred Fiala	6.50
	100.00%

On December 1, 1993, 100% of the common stock of Central Park Lodges, Inc., parent company of F.L.C. Lakehouse, Inc., was purchased by Integrated Health Services, Inc. ("IHS"). This transaction did not have any effect on the accounts of the Partnership.

The acquisition by IHS is subject to approval of the Florida Department of Insurance ("DOI"). IHS has applied to the DOI for approval, however, the DOI has not acted on the application. IHS expects the application to be approved, however, if it is disapproved, the DOI could take action that would be adverse to IHS and the Partnership including revocation of the certificate of authority for operation of the facility or require IHS to divest its ownership interest.

The minority shareholders have filed suit against FLC Lakehouse, Inc. IHS and others alleging among other matters that the acquisition of FLC Lakehouse, Inc. by IHS required the consent of the minority partners or that arrangements should have been made to have the minority partners' interests also purchased. The case is in the preliminary stages of discovery, however, as it represents litigation among the partners, it is not expected to have any impact on the financial position of the partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

Property and Equipment: Property and equipment are stated at historical cost. Additions and betterments that extend the life of an asset are capitalized. Maintenance and repair expenditures are expensed as incurred. Depreciation is computed on the straight-line method based on the following estimated useful lives:

Building and improvements ...	20-40 years
Furniture and equipment	5-10 years

Unearned Entrance Fees and Refundable Deposits: The Partnership accounts for the nonrefundable portion of entrance fees related to the sale of certain residency and care agreements as "unearned entrance fees" and recognizes income from these fees over the estimated remaining life expectancy of each resident, with the life expectancy reevaluated annually. The refundable portion is accounted for as "refundable deposits" and is not amortized. Residency and care agreements may be terminated by residents at any time for any reason with 30 days notice. Within 120 days of termination, the minimum

LAKEHOUSE EAST
(A Partnership)

Notes to Financial Statements--(Continued)

refund amount per contract of the total entrance fee will be refunded to the resident or the resident's estate. If the contract is terminated within 24 months of move-in, the refunds may be higher. Payments of such refunds are charged against the resident's unamortized entrance fee and refundable deposit and any gain or loss is included in revenue or expense.

Income Taxes: The Partnership is not considered a taxable entity for Federal and State income tax purposes. Any taxable income or losses, investment credits and certain other items, therefore, are the responsibility of the partners on their income tax returns in accordance with the partnership agreement. The Partnership uses a fiscal year ending December 31, for reporting income tax items to the partners.

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for entrance fee deposits held in escrow are restricted by the statutes of the State of Florida.

Assets whose use is limited for minimum liquid reserve funds consists of cash and cash equivalents that are required to be maintained by continuing care facilities in accordance with Section 651.035, Florida Statutes. The Partnership has met its required minimum liquid reserves at October 31, 1993.

4. RELATED PARTY TRANSACTIONS

The following transactions between the Partnership and related organizations have been reflected in the financial statements:

The Partnership records expenses payable to a partner for management fees as well as payroll costs, data processing fees and miscellaneous other charges paid on behalf of the Partnership. Through December 1993, these advances from the partner were charged interest at 2% above the prime rate (which was 6% at October 31, 1993). The Partnership recognized $116,665 of interest expense in the year ended October 31, 1993 related to these advances.

INDEPENDENT AUDITORS' REPORT

The Partners
F.L.C. Lakehouse, Inc.,
Don Blivas, Janice Blivas, Fred Fiala
and John Rowe
d/b/a Lakehouse East:

We have audited the accompanying statements of operations and cash flows of F.L.C. Lakehouse, Inc., Don Blivas, Janice Blivas, Fred Fiala and John Rowe d/b/a Lakehouse East (a Partnership) for the month ended November 30, 1993. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Lakehouse East for the month ended November 30, 1993 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Baltimore, Maryland
June 5, 1996

LAKEHOUSE EAST (A PARTNERSHIP)
STATEMENT OF OPERATIONS

	Month ended November 30, 1993
Revenues:	
Monthly service fees	$ 194,661
Earned entrance fees	109,709
Other	6,797
Total revenues	311,167
Operating expenses:.	
Community operations	228,267
Management fees (note 3)	17,519
Depreciation	37,068
Interest (note 3)	10,846
Total operating expenses	293,700
Net earnings	$ 17,467

See accompanying notes to financial statements.

LAKEHOUSE EAST (A PARTNERSHIP)
STATEMENT OF CASH FLOWS

	Month ended November 30, 1993
Cash flows from operating activities:	
Net earnings	$ 17,467
Adjustments to reconcile net earnings to net cash used by operating activities:	
Depreciation	37,068
Earned entrance fees	(109,709)
Entrance fees received	20,875
Decrease in accounts receivable	140,341
Decrease in prepaid expenses and other assets	2,047
Decrease in accounts payable and accrued expenses	(109,632)
Net cash used by operating activities	(1,543)
Cash flows from financing activities:	
Advances from Partners	27,088
Advances from affiliate	73,037
Principal payments on long-term debt	(125,000)
Refunds of deposits and entrance fees	(112,725)
Net cash used by financing activities	(137,600)
Cash flows from investing activities:	
Purchases of property and equipment	(9,965)
Decrease in assets limited as to use	6,671
Net cash used by investing activities	(3,294)
Decrease in cash	(142,437)
Cash, beginning of period	143,187
Cash, end of period	$ 750

See accompanying notes to financial statements.

LAKEHOUSE EAST (A PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS

MONTHS ENDED NOVEMBER 30, 1993

(1) ORGANIZATION

F.L.C. Lakehouse, Inc., Don Blivas, Janice Blivas, Fred Fiala and John Rowe d/b/a Lakehouse East (the "Partnership") is a partnership organized and existing under the laws of the state of Florida. The principal business is the management and maintenance of a 164-unit life care facility. The financial statements include only the results of operations which relate to the business of the Partnership. The ownership interests of the partners at November 30, 1993 are as follows:

F.L.C. Lakehouse, Inc.	60.50%
Donald Blivas	16.50%
Janice Blivas	9.00%
John Rowe	7.50%
Fred Fiala	6.50%
	100.00%

On December 1, 1993, 100% of the common stock of Central Park Lodges, Inc., parent company of F.L.C. Lakehouse, Inc., was purchased by Integrated Health Services, Inc. ("IHS"). In connection with the December 1, 1993 acquisition of CPL, IHS originally obtained the controlling interests in two partnerships, Lakehouse East, which owns and operates a retirement facility including an assisted care wing, 21 garden apartments and 18 villas, and Lakehouse West, which owns and operates an adjacent retirement facility consisting of a single building. The 39.5% minority partners subsequently filed a suit against IHS and CPL alleging that the CPL acquisition triggered a provision in the partnership agreements requiring the sale of the minority interests in the partnership. Settlement of the suit was subsequently reached pursuant to a Partition Agreement between the parties. Under this agreement, an IHS subsidiary became the sole owner of Lakehouse East and the former minority partners became the sole partners of the partnership which is the sole owner of Lakehouse West.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

In some cases, residents of the Lakehouse East facility have entered into life-care contracts whereby the resident pays an entrance fee as well as a monthly rental payment. Additionally, residents pay a monthly service fee that is recognized as revenue in the period in which it is earned. Other revenue represents charges for additional services.

Under most life-care contracts (membership agreements), entrance fees are partially refundable to the resident. The minimum refund amount pursuant to the resident's membership agreement (generally 50% of the total entrance fee) is payable to the resident or the resident's estate within 120 days of termination of the agreement, which may occur at any time after 30 days notice. In addition, a portion of the remainder of the entrance fee is payable if the contract is terminated within 24 months of move-in, determined on a declining pro rata basis. The minimum refund amount and the estimated amount of the remainder which is expected to be refunded based on past experience of the facility are accounted for as refundable deposit liabilities. The remaining amount of the entrance fee is accounted for as deferred revenue under the caption "unearned entrance fees." Such deferred revenue is amortized to operations of future periods based on the estimated life of the resident, adjusted annually based on the actuarially determined estimated remaining life expectancy of each resident, on the straight-line method. Unamortized deferred revenue is recorded as revenue upon the resident's death or contract termination.

Property and Equipment

Property and equipment are recorded at historical cost. Depreciation of property and equipment are computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements ...	20-40 years
Furniture and equipment.....	5-10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Partnership is not considered a taxable entity for Federal and state income tax purposes. Any taxable income or losses, investment credits and certain other items, therefore, are the responsibility of the partners on their income tax returns in accordance with the partnership agreement. The Partnership uses a fiscal year ending December 31 for reporting income tax items to the partners.

(3) RELATED PARTY TRANSACTIONS

The following transactions between the Partnership and related organizations have been reflected in the financial statements.

The Partnership records expenses payable to a partner for management fees of $17,519, as well as payroll costs, data processing fees and miscellaneous other charges paid on behalf of the Partnership. During November 1993, these advances from the partner were charged interest at 2% above the prime rate (which was 6% at November 30, 1993). The Partnership recognized approximately $11,000 of interest expense for the one month period ended November 30, 1993 related to these advances.

The Partnership shares a centralized cash account with an affiliated partnership, Lakehouse West, which results in intercompany balances between Lakehouse East and Lakehouse West.

INDEPENDENT AUDITORS' REPORT

The Partners
Liberty/Carrington Pointe Limited Partnership:

We have audited the accompanying statements of operations and cash flows of Carrington Pointe (a facility owned by Liberty/Carrington Pointe Limited Partnership) for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations, and cash flows of Carrington

Pointe (a facility owned by Liberty/Carrington Pointe Limited Partnership) for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Baltimore, Maryland
June 5, 1996

CARRINGTON POINTE
(A FACILITY OWNED BY LIBERTY/CARRINGTON POINTE LIMITED PARTNERSHIP)

STATEMENTS OF OPERATIONS

	Years ended December 31,		
	1993	1994	1995
Revenues:			
Monthly service fees	$3,191,293	$3,368,346	$3,485,989
Other	89,848	81,551	102,412
Total revenues	3,281,141	3,449,897	3,588,401
Facility operating expenses:			
Salaries, wages and benefit	1,012,499	1,062,616	1,074,229
Other operating expenses	909,755	942,577	862,676
Management fees (note 2)	230,895	240,938	249,470
Depreciation	406,166	416,074	425,153
Total expenses	2,559,315	2,662,205	2,611,528
Net earnings	$ 721,826	$ 787,692	$ 976,873

See accompanying notes to financial statements.

CARRINGTON POINTE
(A FACILITY OWNED BY LIBERTY/CARRINGTON POINTE LIMITED PARTNERSHIP)

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended December 31,		
	1993	1994	1995
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings	$ 721,826	$ 787,692	$ 976,873
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	406,166	416,074	425,153
Decrease (increase) in prepaid expenses and other assets	2,345	4,810	(3,272)
Increase in accounts receivable	(10,490)	(5,033)	(84)
Increase (decrease) in accounts payable and other liabilities	(15,906)	(60,595)	125,535
Net cash provided by operating activities	1,103,941	1,142,948	1,524,205
Cash flows from financing activities--decrease in amounts due to affiliates	(1,045,931)	(1,090,218)	(1,508,281)
Cash flows from investing activities--purchases of property, plant and equipment	(18,268)	(99,040)	(4,200)
Increase (decrease) in cash	39,742	(46,310)	11,724

Cash, beginning of period.....	13,577	53,319	7,009
Cash, end of period.....	$ 53,319	$ 7,009	$ 18,733

</TABLE>

See accompanying notes to financial statements.

CARRINGTON POINTE

(A FACILITY OWNED BY LIBERTY/CARRINGTON POINTE LIMITED PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993, 1994 AND 1995

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

Carrington Pointe (the facility) is a 172-unit assisted-living facility located in Fresno, California. The facility provides various services to its residents, including meals, social activities and other personal services.

Liberty/Carrington Pointe Limited Partnership (the "Partnership") is a partnership organized and existing under the laws of Massachusetts which owns and operates the Carrington Pointe facility.

The partners' interest in the Partnership are as follows:

Partners	Partnership Interest	Ownership Interests
Liberty Real Estate Properties, Inc. ...	General	1%
Atlantic Real Estate L.P.....	Limited	99%
		100%

On December 15, 1995, a subsidiary of Integrated Health Services, Inc. (IHS) acquired the facility from Liberty/Carrington Pointe Limited Partnership. The purchase price was approximately $11,900,000 adjusted for certain accrued liabilities, prepayments and deposits assumed by IHS. These financial statements include no adjustments to establish a new basis of accounting for the facility related to the change in ownership.

IHS recorded the acquisition of Carrington Pointe as of December 31, 1995. In connection with a corporate reorganization in 1996, Carrington Pointe is now owned by a subsidiary of Integrated Living Communities, Inc. which is also wholly-owned by IHS.

Monthly Service Fees

Resident units are rented on a month to month basis and rent is recognized in the months the units are occupied. Service fees paid by residents for assisted-living and other related services are recognized in the period such services are rendered as other revenue.

CARRINGTON POINTE
(A Facility Owned by Liberty/Carrington Pointe Limited Partnership)--(Continued)

Property and Equipment

Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements ...	40 years
Land improvements.....	25 years
Furniture and equipment.....	10 years

Vehicles ..... 5 years

Income Taxes

Neither the partnership nor the facility are considered taxable entities for Federal and state income tax purposes. Accordingly, no provision for income taxes is reflected in the financial statements. Any taxable income or losses, investment credits and certain other items, therefore, are reported by the partners in their income tax returns.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) MANAGEMENT FEES

Integrated Health Services, Inc. (IHS) performed management services for the facility until the date of acquisition by IHS. Pursuant to the management agreement, the management fee is 6.5% of gross receipts plus a monthly charge of $15 per employee.

INDEPENDENT AUDITORS' REPORT

The Partners
C.S. Denton Partners, Ltd.:

We have audited the accompanying balance sheets of Vintage Health Care Center Retirement Division (the Company) (wholly-owned by C.S. Denton Partners, Ltd., a Partnership) as of December 31, 1994 and 1995, and the related statements of operations, changes in division equity and cash flows for the years ended December 31, 1994 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vintage Health Care Center Retirement Division as of December 31, 1994 and 1995, and the results of its operations and cash flows for the years ended December 31, 1994 and 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Baltimore, Maryland
June 5, 1996

VINTAGE HEALTH CARE CENTER RETIREMENT DIVISION
(WHOLLY-OWNED BY C.S. DENTON PARTNERS, LTD., A PARTNERSHIP)

BALANCE SHEETS

	December 31,	
	1994	1995
Assets		
Current assets:		
Cash	$ 132,046	$ 168,738
Accounts receivable	4,661	4,828
Total current assets	136,707	173,566
Property, plant and equipment, net (note 4)	4,134,082	4,015,263
	$4,270,789	$4,188,829
Liabilities and Division Equity		
Rent collected in advance	$ 6,959	$ 3,673
Security deposits	132,046	168,738
Note payable (note 5)	4,352,000	4,692,000
Total current liabilities	4,491,005	4,864,411
Division equity	(220,216)	(675,582)
	$4,270,789	$4,188,829

See accompanying notes to financial statements.

VINTAGE HEALTH CARE CENTER RETIREMENT DIVISION
(WHOLLY-OWNED BY C.S. DENTON PARTNERS, LTD., A PARTNERSHIP)

STATEMENTS OF OPERATIONS

	Years ended December 31,	
	1994	1995
Revenues		
Monthly service fees	$1,514,305	$1,598,439
Other revenue	43,341	22,946
Total revenues	1,557,646	1,621,385
Expenses:		
Facility Operations	1,202,861	1,208,570
Management fees	77,882	81,069
Depreciation	192,082	199,687
Interest	234,491	428,629
Total expenses	1,707,316	1,917,955
Net loss	$ (149,670)	$ (296,570)

See accompanying notes to financial statements.

VINTAGE HEALTH CARE CENTER RETIREMENT DIVISION

(WHOLLY-OWNED BY C.S. DENTON PARTNERS, LTD., A PARTNERSHIP)

STATEMENTS OF CHANGES IN DIVISION EQUITY
YEARS ENDED DECEMBER 31, 1994 AND 1995

<TABLE>
<CAPTION>

<S>	<C>
Balance at January 1, 1994	$(143,221)
Net earnings	(149,670)
Net increase in division equity arising from transactions with Parent Company	72,675
Balance at December 31, 1994	(220,216)
Net earnings	(296,570)
Net decrease in division equity arising from transactions with Parent Company	(158,796)
Balance at December 31, 1995	$(675,582)

</TABLE>

See accompanying notes to financial statements.

VINTAGE HEALTH CARE CENTER RETIREMENT DIVISION
(WHOLLY-OWNED BY C.S. DENTON PARTNERS, LTD., A PARTNERSHIP)

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	<C> Years ended December 31, 1994	<C> Years ended December 31, 1995
Cash flows from operating activities:		
Net loss	$(149,670)	$(296,570)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	192,082	199,687
Decrease (increase) in accounts receivable and rent collected in advance	1,735	(3,453)
Increase in security deposits	2,486	36,692
Net cash provided (used) by operating activities	46,633	(63,644)
Cash flows from financing activities:		
Increase (decrease) in division equity representing net, advances from (distributions to) Parent Company	72,675	(158,796)
Increase in note payable	--	340,000
Net cash flows from financing activities:	72,675	181,204
Cash flows from investing activities--property, plant and equipment additions	(116,822)	(80,868)
Increase in cash	2,486	36,692
Cash, beginning of period	129,560	132,046
Cash, end of period	$ 132,046	$ 168,738

</TABLE>

See accompanying notes to financial statements.

VINTAGE HEALTH CARE CENTER RETIREMENT DIVISION
(WHOLLY-OWNED BY C.S. DENTON PARTNERS, LTD., A PARTNERSHIP)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1994 AND 1995

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

The Vintage Health Care Center Retirement Division (the Retirement Division) consists of a 43 unit assisted living and a 62 unit congregate care facility also. The Retirement Division represents an operating Division of the Vintage Health Care Center, (the Parent Company))which includes a skilled nursing facility. Vintage Health Care Center represents substantially all of the assets of C.S. Denton Partners, Ltd. (the Partnership). The financial statements of the Retirement Division include the activity of the assisted living and congregate care facility only and do not include the activity of the skilled nursing facility. The Partnership was organized under the laws of the State of Texas and its principal business is to own and operate the Vintage Health Care Center.

The Vintage Health Care Center is located on a campus containing an assisted-living and congregate care living facility and a skilled-nursing facility which share certain operating expenses. Allocations of various operating expenses have been made by management on a monthly basis in order to present the separate operating expenses of the Retirement Division and the skilled-nursing facility.

Revenue Recognition

Rent is recognized in the month the units are occupied and service fees paid by residents are recognized in the period the services are provided.

Income Taxes

Neither the Partnership nor the Vintage Health Care Center Retirement Division are considered taxable for Federal and State income tax purposes. Any taxable income or losses, investment credits and certain other items, therefore, are the reponsibility of the Partners on their income tax returns in accordance with the Partnership agreement. The Partnership uses a fiscal year ended December 31 for reporting income tax items to the partners.

Statements of Cash Flow

Under a cash management facility provided by the Partnership, the Retirement Division's cash balances are transferred to a centralized account and applied to reduce division equity. The facility's cash needs for operating and other purposes are similarly provided through an increase in division equity.

Division Equity

Division equity represents net advances from the Partnership to the Retirement Division less the cumulative deficit (annual losses in excess of earnings in prior years) of the Retirement Division. Advances from the Partnership represent the cash paid by the Partnership on behalf of the Retirement Division in excess of cash received by the Partnership on behalf of the Retirement division.

Property and Equipment

Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements ...	20-30 years
Equipment.....	5-10 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Disclosures about Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, rent collected in advance, security deposits and notes payables approximate fair value because of the short-term maturity of these instruments.

(2) MANAGEMENT FEES

Autumn America Retirement, Ltd., wholly-owned by Robert Chilton, performed management services for the Retirement Division until the date of acquisition by Integrated Health Services, Inc. (IHS). Pursuant to the management agreement, the managment fee is 5% of gross receipts. Management fees paid to Autumn America Retirement, Ltd. were approximately $77,882 and $81,069 for the years ended December 31, 1994 and 1995, respectively.

(3) OWNERSHIP

The partners' interests in the Partnership during 1994 and 1995 were as follows:

<TABLE>
<CAPTION>

Partners	Partnership Interest	Ownership Interests January 1, 1994 to April 1, 1995	Ownership Interests April 1, 1995 to December 31, 1995
<S>	<C>	<C>	<C>
Pinnacle Properties IX, Inc. (wholly-owned by Thomas Scott).....	Limited	49.5%	99.0%
Robert Chilton.....	Limited	49.5%	--
Denton NH, Inc. (50% owned by Pinnacle Properties IX, Inc., and 50% owned by Robert Chilton).....	General	1.0%	1.0%
		100.0%	100.0%

</TABLE>

On April 1, 1995, Pinnacle Properties IX, Inc. purchased the 49.5% partnership interest in C.S. Denton Partners, Ltd. held by Robert Chilton and the 50.0% interest in Denton NH, Inc., held by Robert Chilton. This transaction effectively gave Thomas Scott a 100% interest in C.S. Denton Partners, Ltd.

On January 29, 1996, an IHS subsidiary purchased the Vintage Health Care Center. On June 1, 1996 the IHS subsidiary contributed a condominium interest in the assisted living and congregate care portion of the Vintage Health Care Center to Integrated Living Communities, Inc. (ILC). Between January 29, 1996 and June 1, 1996 ILC will lease the assisted and independent living communities from IHS at a monthly rental of $35,000.

(4) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

	December 31,	
	1994	1995
Land	$ 458,620	$ 458,620
Building and improvements	3,652,735	3,674,637
Equipment.....	525,788	584,754
	4,637,143	4,718,011
Less accumulated depreciation..	503,061	702,748
Total.....	$4,134,082	$4,015,263

(5) NOTE PAYABLE

On March 31, 1995, CS Denton Partners Ltd. entered into a $6.9 million promissory note with Nationsbank, of which approximately $4.7 million is allocated to the retirement division. Proceeds of the note were used to pay off a $6.4 million note between Chemical Bank and CS Denton Partner Ltd, of which approximately $4.4 million was allocated to the retirement division. The March 31, 1995 note bears interest at the prime rate plus one percent (9.5% at December 31, 1995), payable monthly. Interest paid on the note approximates interest expense included in the financial statements. The March 31, 1995 note was paid off in connection with the January, 1996 sale of Vintage Health Care Center.

INDEPENDENT AUDITOR'S REPORT

The Tenants In Common
Terrace Gardens Tenants In Common:

We have audited the accompanying balance sheets of Terrace Gardens Tenants In Common (d/b/a Terrace Gardens Healthcare and Retirement Center) (the "Company"), a facility owned by seven tenants in common (see note 1) as of December 31, 1994 and 1995, and the related statements of operations, owners' deficit and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Terrace Gardens Tenants In Common (d/b/a Terrace Gardens Healthcare and Retirement Center) as of December 31, 1994 and 1995, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Baltimore, Maryland
June 5, 1996

TERRACE GARDENS TENANTS IN COMMON

(D/B/A TERRACE GARDENS HEALTHCARE AND RETIREMENT CENTER)

BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31, 1994	December 31, 1995
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	$ 205,187	$ 319,481
Accounts receivable, less allowance for doubtful accounts of $19,084 in 1995	498,417	449,025
Other current assets	54,282	51,597
Total current assets	757,886	820,103
Property, plant and equipment, net (note 2)	8,362,121	8,044,779
Deferred financing costs, net of accumulated amortization of $116,482 at December 31, 1994 and $131,446 in 1995	154,549	139,585
	$9,274,556	$9,004,467
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable and accrued expenses (note 6)	$ 332,719	$ 342,084
Refundable security deposits	340,802	342,837
Current portion of long-term debt (notes 3 and 4)	309,203	314,086
Total current liabilities	982,724	999,007
Long-term debt:		
Mortgage payable, less current portion (note 3)	8,197,556	7,977,558
Note payable, less current portion (note 4)	188,000	116,000
Total liabilities	9,368,280	9,092,565
Owner's deficit	(93,724)	(88,098)
	$9,274,556	$9,004,467

</TABLE>

See accompanying notes to consolidated financial statements.

TERRACE GARDENS TENANTS IN COMMON
(D/B/A TERRACE GARDENS HEALTHCARE AND RETIREMENT CENTER)

STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Years ended December 31, 1993	1994	1995
<S>	<C>	<C>	<C>
Revenues:			
Nursing facility:			
Basic medical services, net	$1,819,752	$1,821,085	$1,828,533
Specialty medical services	158,412	165,379	189,793
	1,978,164	1,986,464	2,018,326
Assisted living and congregate living facilities:			
Monthly service fees	3,672,034	3,780,651	3,813,841
Other	67,801	79,937	94,150
	3,739,835	3,860,588	3,907,991
Other	16,317	15,138	16,747
Total revenues	5,734,316	5,862,190	5,943,064

Facility operating expenses:			
Salaries, wages and benefits	2,780,287	2,800,350	2,871,205
Other operating expenses	1,031,840	1,177,705	1,196,466
Administrative	509,349	503,182	545,941
	4,321,476	4,481,237	4,613,612
Interest	586,376	626,946	738,870
Depreciation and amortization	361,292	367,223	344,956
Total expenses	5,269,144	5,475,406	5,697,438
Net earnings	$ 465,172	$ 386,784	$ 245,626

</TABLE>

TERRACE GARDENS TENANTS IN COMMON
(D/B/A TERRACE GARDENS HEALTHCARE AND RETIREMENT CENTER)

STATEMENTS OF CHANGES IN OWNERS' DEFICIT
YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995

Owners' deficit at December 31, 1992	$(325,680)
Net earnings	465,172
Distribution to tenants in common	(270,000)
Owners' deficit at December 31, 1993	(130,508)
Net earnings	386,784
Distribution to tenants in common	(350,000)
Owners' deficit at December 31, 1994	(93,724)
Net earnings	245,626
Distribution to tenants in common	(240,000)
Owners' deficit at December 31, 1995	$ (88,098)

See accompanying notes to financial statements.

TERRACE GARDENS TENANTS IN COMMON
(D/B/A TERRACE GARDENS HEALTHCARE AND RETIREMENT CENTER)

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended December 31,		
	1993	1994	1995
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings	$ 465,172	$ 386,784	$ 245,626
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	361,292	367,223	344,956
Decrease (increase) in other assets	24,698	(15,940)	2,685
Decrease (increase) in accounts receivable	(22,528)	(72,538)	49,392
Increase in accounts payable and accrued expenses	13,580	11,024	9,365

Increase (decrease) in security deposits	(27,477)	(22,876)	2,035
Net cash provided by operating activities.....	814,737	653,677	654,059
Cash flows from financing activities:			
Payments on mortgages payable.....	(229,505)	(237,203)	(215,115)
Payments on note payable.....	(72,000)	(72,000)	(72,000)
Distributions to tenants in common.....	(270,000)	(350,000)	(240,000)
Net cash used by financing activities.....	(571,505)	(659,203)	(527,115)
Cash flows from investing activities-- purchase of property, plant and equipment	(76,912)	(150,179)	(12,650)
Increase (decrease) in cash.....	166,320	(155,705)	114,294
Cash, beginning of period.....	194,572	360,892	205,187
Cash, end of period.....	$ 360,892	$ 205,187	$ 319,481

</TABLE>

See accompanying notes to financial statements.

TERRACE GARDENS TENANTS IN COMMON

(D/B/A TERRACE GARDENS HEALTHCARE AND RETIREMENT CENTER)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1993, 1994 AND 1995

(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

Terrace Gardens Tenants In Common (a Kansas tenancy in common), hereinafter referred to as the Company, owns and operates Terrace Gardens Healthcare and Retirement Center (the Facility) which consists of a 120-unit congregate living facility, a 122 bed assisted living facility and a 100 bed nursing facility located in Wichita, Kansas. The Facility provides various services to its residents, including intermediate nursing care, meals, social activities and other personal services.

The Facility is owned by seven tenants in common. Ownership interests in the facility are as follows:

Tenants in Common	Ownership Interest
Herb Krumsick.....	33%
Nestor Weigand, Jr.....	17%
Ross Tidemann, Managing co-owner	19%
Chester West, Administrator.....	10%
Dr. Jon Kardatzke, Medical Doctor ...	5%
Terrace Gardens L.P.....	6%
Louis Weiss.....	10%
	100%

In February, 1996, Integrated Living Communities, Inc. (ILC) entered into an agreement to acquire the facility from the tenants in common above. The purchase price is approximately $12.20 million adjusted for certain accrued liabilities, prepayments and deposits to be assumed by ILC. The purchase is scheduled to close simultaneous with the initial public offering of common stock of ILC.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Revenue Recognition

Nursing facility revenues include revenues from two nursing units at the Facility. Basic medical services revenues represent routine service (room and board) charges of the nursing units. Specialty medical services revenues

represent ancillary service charges of the nursing units.

Assisted living revenues include revenues from a congregate living apartment building as well as revenues from three assisted living units. Service fees represent monthly rental charges to residents of the apartment units and daily room and board charges in the assisted living units.

Revenues are recorded at established rates and adjusted for differences between such rates and estimated amounts reimbursable by third party payors when applicable. Revenues are recognized in the period the units are occupied and service fees paid by residents are recognized in the period that such services are provided.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Disclosures about Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, other current assets, other assets, accounts payable, and accrued expenses approximate fair value because of the short-term maturity of these instruments. The carrying amount of the mortgage payable approximates its fair value because the interest rate is adjusted quarterly.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings.....	40 years
Land improvements ...	25 years
Equipment.....	10 years

Income Taxes

The Facility is not considered taxable for Federal and state income tax purposes and, accordingly, the Company does not record a provision for income taxes. Any taxable income or loss, investment tax credits and certain other items are the responsibility of the tenants in common on their tax returns in accordance with their ownership interests.

Deferred Financing Costs

Long-term debt financing costs are deferred and amortized over the term of the financing using the straight-line method.

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	1994	1995
Land and improvements.....	$ 458,558	$ 458,558
Building and improvements.....	9,856,692	9,856,692
Furniture and equipment	1,097,723	1,110,373
	11,412,973	11,425,623
Less accumulated depreciation.	3,050,852	3,380,844
Total.....	$ 8,362,121	$ 8,044,779

(3) MORTGAGES PAYABLE

As tenants in common, Herb Krumsick, Ross Tidemann, Chester West, Jon Kardatzke and Weigand Properties, Inc., borrowed $4,800,000 from Eureka Federal Savings and Loan Association (Eureka) with a promissory note dated July 21, 1987. The interest rate on the Eureka note is adjusted quarterly to equal the 90-day U.S. Treasury bill rate plus 3%, rounded up to the nearest 1/8 %. The borrowers are to make monthly payments of principal and interest, adjusted quarterly, based upon a 25 year fully amortizing schedule of equal monthly payments. All remaining principal and unpaid interest is due on August 1, 2007. The promissory note is secured by a mortgage and security interest in the premises. Any default in the terms and provisions of the Eureka promissory note shall be construed as an event of default under the Mid-Kansas note described below.

Also as tenants in common, Herb Krumsick, Ross Tidemann, Chester West, Jon Kardatzke and Weigand Properties, Inc., borrowed $4,800,000 from Mid-Kansas Federal Savings and Loan Association of Wichita (Mid-Kansas) with a promissory note dated July 21, 1987. The interest rate on the Mid-Kansas note is adjusted quarterly to equal the 90-day U.S. Treasury bill rate plus 3 1/8 %, rounded up to the nearest 1/8 %. Monthly payments of principal and interest, adjusted quarterly, are based upon a 25 year fully amortizing schedule of equal monthly payments. All remaining principal and unpaid interest shall be due on August 1, 2007. The promissory note is secured by a mortgage on and security interest in the premises. Any default of the borrowers in the terms and provisions of the Mid-Kansas note shall be construed as an event of default under the Eureka mortgage note described above.

At December 31, 1995, the annual maturities of the mortgages for the five years ending December 31, 2000 and thereafter are as follows:

1996.....	$ 242,086
1997.....	262,828
1998.....	285,347
1999.....	309,797
2000.....	336,341
Thereafter .	6,783,245
	$8,219,644

(4) NOTE PAYABLE

As tenants in common, Ross Tidemann, Herb Krumsick, Chester West, Jon Kardatzke and Weigand Properties, Inc. entered into a note with E. Stanley Kardatzke, Jon Kardatzke, E. E. Kardatzke, and Vera L. Kardatzke on December 31, 1986 in the original amount of $2,480,000. This note was subsequently assigned to Jon Kardatzke as the only payee. This note is secured by a second mortgage and security agreement covering the property located in Wichita, Kansas. A default under the promissory notes mentioned in note 3 shall constitute a default under this note. The note as amended bears interest at a rate of 9.75%. The principal balance of the note is payable in monthly principal payments of $6,000 plus accrued interest. Annual maturities are as follows:

1996.....	$ 72,000
1997.....	72,000
1998.....	44,000
	$188,000

Interest paid on the mortgages and note approximated the amount of interest expense during the three-year period ended December 31, 1995.

(5) CONCENTRATIONS OF CREDIT RISK

Receivables from patients and third-party payors at December 31, 1994 and 1995 by payor class are as follows:

	1994	1995
Medicaid.....	15%	19%
Private and other.....	85%	81%

(6) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 1994 and December 31, 1995 are summarized as follows:

	1994	1995
Accounts payable.....	$170,320	$174,713
Accrued salaries and wages....	105,556	114,963
Other accrued expenses.....	56,843	52,408
	$332,719	$342,084

(7) RELATED PARTY TRANSACTIONS

The Facility has recorded a receivable at December 31, 1995 from Chester West, administrator and a tenant in common, in the amount of $14,000, which is included in other current assets. In addition, the Facility has recorded compensation to Mr. West of $106,000 in 1993, $119,943 in 1994 and $116,800 in 1995. Ross Tidemann, the managing co-owner, has been paid management fees of $24,000 in 1993, $24,000 in 1994 and $24,000 in 1995. Jon Kardatzke, Medical Director and a Tenant In Common, has been paid compensation of $21,600 in 1993, $21,600 in 1994 and $21,600 in 1995.

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or any Underwriter. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any date subsequent to the date hereof. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered hereby by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

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Until , 1996 (25 days after the date of this Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

5,130,600 SHARES

[Logo]

INTEGRATED LIVING COMMUNITIES, INC.

COMMON STOCK

PROSPECTUS

, 1996

SMITH BARNEY INC.

ALEX. BROWN & SONS
INCORPORATED

Donaldson, Lufkin & Jenrette
Securities Corporation

PART II

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the Company's estimates (other than the SEC registration fee, the NASD filing fee and the Nasdaq National Market listing fee) of the expenses in connection with the issuance and distribution of the shares of Common Stock being registered, other than underwriting discounts and commissions and the Representatives non-accountable expense allowance:

SEC registration fee.....	$ 46,610.69
NASD filing fee	14,017.10
Nasdaq National Market listing fee.....	43,124.13
Printing and engraving expenses ..	150,000.00*
Legal fees and expenses.....	250,000.00*
Accounting fees and expenses	750,000.00*
Blue sky fees and expenses.....	30,000.00*
Transfer agent and registrar fees.....	10,000.00*
Miscellaneous expenses	56,248.08*
Total:.....	$1,350,000.00*

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*Estimated

The Selling Stockholder will not pay any of the foregoing expenses, all of which the Company has agreed to pay.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145(a) of the General Corporation Law of the State of Delaware ("GCL") provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no cause to believe his conduct was unlawful.

Section 145(b) of the GCL provides that a Delaware corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that despite the adjudication of liability, such person is fairly and reasonably entitled to be indemnified for such expenses which the court shall deem proper.

Section 145 of the GCL further provides that to the extent a director or officer of a corporation has been successful in the defense of an action, suit or proceeding referred to in subsections (a) and (b) or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith, that indemnification provided for by Section 145 of the GCL shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the

corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under such Section 145.

The Company's Restated Certificate of Incorporation provides that the Company shall indemnify certain persons, including officers, directors, employees and agents, to the fullest extent permitted by Section 145 of the GCL of the State of Delaware. Reference is made to the Restated Certificate of Incorporation filed as Exhibit 3.1. The Company's directors and officers are insured against losses arising from any claim against them as such for wrongful acts or omission, subject to certain limitations.

Under Section 9 of the Underwriting Agreement, the Underwriters are obligated, under certain circumstances, to indemnify officers, directors and controlling persons of the Company against certain liabilities, including liabilities under the Securities Act. Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

In January 1996 the Company issued 100 shares of Common Stock to Integrated Health Services, Inc. ("IHS") in consideration of IHS' contribution to it of certain assets. In June 1996 the Company issued to IHS 4,960,900 shares of Common Stock as a dividend to effect a 49,610-for-1 stock split of the Common Stock on June 10, 1996. The foregoing transaction was exempt from registration under the Securities Act pursuant to Section 4(2) thereunder. In August 1996, IHS surrendered 1,063,100 shares of Common Stock to the Company. At June 30, 1996, IHS had paid total consideration of $42,387,000, representing the net book value of the facilities contributed as capital to the Company by IHS less the cash distributions received by IHS from the Company.

<TABLE>

<CAPTION>

<S> <C>

Item 16. Exhibits and Financial Statement Schedules
(a) Exhibits

No.	Description
1	Form of Underwriting Agreement.*
2.1	Asset Purchase Agreement, dated as of , 1996, by and among Terrace Gardens, L.P., Herbert L. Krumsick, Jon Kardatzke, Louis Weiss, Chester West, Ross G. Tidemann, Nestor R. Weigand, Jr., and Integrated Living Communities at Terrace Gardens, Inc.+
2.2	Asset Purchase Agreement, dated as of June 1, 1996, between Cabot Pointe I, Inc. and Integrated Living Communities at Cabot Pointe, Inc. and Certain Shareholders of Cabot Pointe I, Inc.+
3.1	Restated Certificate of Incorporation, as amended.
3.2	Bylaws.*
4.1	Specimen Common Stock Certificate (Description).+
5	Opinion of Fulbright & Jaworski L.L.P.
10.1	Declaration of Condominium of West Palm Beach, a Condominium, dated as of June 3, 1996, by Central Park Lodges of West Palm Beach and Integrated Living Communities of West Palm Beach, Inc.+
10.2	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of West Palm Beach, Inc. and Central Park Lodges of West Palm Beach, Inc.+
10.3	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of West Palm Beach, Inc. and Central Park Lodges of West Palm Beach, Inc.+
10.4	Declaration of Condominium of Treemont, a Condominium, dated as of June 1, 1996, by Cambridge Group of Texas, Inc. and Integrated Living Communities of Dallas, Inc.+
10.5	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Dallas, Inc. and Cambridge Group of Texas, Inc.+

10.6	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Dallas, Inc. and Cambridge Group of Texas, Inc.+
10.7	Declaration of Condominium of Vintage, a Condominium, dated as of June 1, 1996, by Integrated Health Services at Great Bend, Inc. and Integrated Living Communities of Denton (Texas), Inc.+
10.8	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Denton (Texas), Inc. and Integrated Health Services at Great Bend, Inc.+
10.9	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Denton (Texas), Inc. and Integrated Health Services at Great Bend, Inc.+
10.10	Administrative Services Agreement, effective June 1, 1996, by and between Integrated Living Communities, Inc. and Integrated Health Services, Inc.+
10.11	Lease Agreement, dated as of June 18, 1996, between The Hartmoor Homestead, L.C., as Landlord, and Integrated Living Communities at Wichita, Inc., as Tenant.+
10.12	Purchase Option Agreement, dated as of June 18, 1996, by and between The Hartmoor Homestead, L.C., as Owner, and Integrated Living Communities at Wichita, Inc., as Optionee.+
10.13	Right of First Refusal Agreement, dated as of June 18, 1996, by and between The Hartmoor Homestead, L.C. and Integrated Living Communities at Wichita, Inc.+
10.14	Lease Agreement, dated as of June 18, 1996, between The Homestead of Garden City, L.C., as Landlord, and Integrated Living Communities at Garden City, Inc., as Tenant.+
10.15	Purchase Option Agreement, dated as of June 18, 1996, by and between The Homestead of Garden City, L.C., as Owner, and Integrated Living Communities at Garden City, Inc., as Optionee.+
10.16	Right of First Refusal Agreement, dated as of June 18, 1996, by and between The Homestead of Garden City, L.C. and Integrated Living Communities at Garden City, Inc.+
10.17	Sublease, dated as of June 1, 1996, between Integrated Living Communities of Bradenton, Inc. and Integrated Health Services of Lester, Inc. (relating to "The Shores").+
10.18	Guaranty, dated as of June 1, 1996, by Integrated Living Communities, Inc. for the benefit of Integrated Health Services of Lester, Inc. and Litchfield Asset Management Corp.+
10.19	Sublease, dated as of June 1, 1996, between Integrated Living Communities of Bradenton, Inc. and Integrated Health Services of Lester, Inc. (relating to "Cheyenne").+
10.20	Registration Rights Agreement, dated as of June 1, 1996, between Integrated Living Communities, Inc. and Integrated Health Services,

Inc.

10.21 Purchase and Sale Agreement, dated as of October 4, 1995, between Liberty Carrington Pointe . Limited Partnership, as Seller, and Integrated Management-Carrington Pointe, Inc., as Buyer.+

10.22 First Amendment to Purchase and Sale Agreement, dated as of December 15, 1995, between Liberty/Carrington Pointe Limited Partnership, as Seller, and Integrated Management-Carrington Pointe, Inc., as Buyer.+

10.23 Employment Agreement, dated as of May 1, 1996, between the Company and Edward J. Komp.+

10.24 Employment Agreement, dated as of May 1, 1996, between the Company and Kayda Johnson.+

10.25 Employment Agreement, dated as of May 1, 1996, between the Company and John Poole.+

10.26 Employment Agreement, dated as of May 1, 1996, between the Company and Kyle Shatterly.+

10.27 Form of Indemnification Agreement for officers and directors.+

10.28 Stock Incentive Plan.

10.29 Form of Option Agreement under Stock Incentive Plan.

10.30 Non-Employee Director Stock Option Plan.

10.31 Form of Option Agreement under Non-Employee Director Stock Option Plan.

10.32 Form of Non-Plan Director Option.

10.33 Integrated Living Communities, Inc. Supplemental Deferred Compensation Plan.*

10.34 Revolving Credit Demand Note, dated February 29, 1996, in the principal amount of $750,000, between Lori Zito d/b/a Elderly Development Company, as Borrower, and Integrated Health Services Retirement Management, Inc., as Lender, as amended by Allonge and Amendment of Revolving Credit Demand Note dated as of July 9, 1996.+

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10.47 Ancillary Services Agreement dated as of June 3, 1996 by and among Integrated Living Communities, Inc., Integrated Health Services, Inc. and Aguirre, Inc.

21. Subsidiaries of the Registrant.

23.1 Consent of KPMG Peat Marwick LLP

23.2 Consent of Deloitte & Touche LLP

23.3 Consent of Fulbright & Jaworski L.L.P. (contained in Exhibit 5).

24.1 Power of Attorney (included on signature page).+

24.2 Certified Resolution.+
27. Financial Data Schedule+
</TABLE>
---
* To be filed by amendment.

+ Previously filed.

(B) FINANCIAL STATEMENT SCHEDULES

ITEM 17. UNDERTAKINGS.

A. The undersigned registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

B. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

C. The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Owings Mills and State of Maryland on the 22nd day of August, 1996.

By: /s/ Edward J. Komp

Edward J. Komp
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ Edward J. Komp --- Edward J. Komp	President, Chief Executive Officer and Director (principal executive officer)	August 22, 1996

/s/ John B. Poole* John B. Poole	Senior Vice President-- Chief Financial Officer (principal financial and accounting officer)	August 22, 1996
/s/ Robert N. Elkins* Robert N. Elkins, M.D.	Chairman of the Board of Directors	August 22, 1996
Luis Bared	Director	
/s/ Lawrence P. Cirka* Lawrence P. Cirka	Director	August 22, 1996
/s/ Charles A. Laverty* Charles A. Laverty	Director	August 22, 1996
/s/ Lisa Merritt* Lisa Merritt	Director	August 22, 1996

*By: /s/ Edward J. Komp
Edward J. Komp
(as attorney-in-fact for each of the persons indicated)

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit No.	Description	Page
<S>	<C>	<C>
1	Form of Underwriting Agreement.*	
2.1	Asset Purchase Agreement, dated as of , 1996, by and among Terrace Gardens, L.P., Herbert L. Krumsick, Jon Kardatzke, Louis Weiss, Chester West, Ross G. Tidemann, Nestor R. Weigand, Jr., and Integrated Living Communities at Terrace Gardens, Inc.+	
2.2	Asset Purchase Agreement, dated as of June 1, 1996, between Cabot Pointe I, Inc. and Integrated Living Communities at Cabot Pointe, Inc. and Certain Shareholders of Cabot Pointe I, Inc.+	
3.1	Restated Certificate of Incorporation, as amended.	
3.2	Bylaws.*	
4.1	Specimen Common Stock Certificate (Description).+	
5	Opinion of Fulbright & Jaworski L.L.P.	
10.1	Declaration of Condominium of West Palm Beach, a Condominium, dated as of June 3, 1996, by Central Park Lodges of West Palm Beach and Integrated Living Communities of West Palm Beach, Inc.+	
10.2	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of West Palm Beach, Inc. and Central Park Lodges of West Palm Beach, Inc.+	
10.3	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of West Palm Beach, Inc. and Central Park Lodges of West Palm Beach, Inc.+	
10.4	Declaration of Condominium of Treemont, a Condominium, dated as of June 1, 1996, by Cambridge Group of Texas, Inc. and Integrated Living Communities of Dallas, Inc.+	
10.5	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Dallas, Inc. and Cambridge Group of Texas, Inc.+	
10.6	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Dallas, Inc. and Cambridge Group of Texas, Inc.+	
10.7	Declaration of Condominium of Vintage, a Condominium, dated as of June 1, 1996, by Integrated Health Services at Great Bend, Inc. and Integrated Living Communities of Denton (Texas), Inc.+	
10.8	Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Denton (Texas), Inc. and Integrated Health Services at Great Bend, Inc.+	
10.9	Amendment to Services Agreement, dated as of June 1, 1996, between Integrated Living Communities of Denton (Texas), Inc. and Integrated Health Services at Great Bend, Inc.+	
10.10	Administrative Services Agreement, effective June 1, 1996, by and between Integrated Living Communities, Inc. and Integrated Health Services, Inc.+	

10.11	Lease Agreement, dated as of June 18, 1996, between The Hartmoor Homestead, L.C., as Landlord, and Integrated Living Communities at Wichita, Inc., as Tenant.+	
10.12	Purchase Option Agreement, dated as of June 18, 1996, by and between The Hartmoor Homestead, L.C., as Owner, and Integrated Living Communities at Wichita, Inc., as Optionee.+	
10.13	Right of First Refusal Agreement, dated as of June 18, 1996, by and between The Hartmoor Homestead, L.C. and Integrated Living Communities at Wichita, Inc.+	

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10.14	Lease Agreement, dated as of June 18, 1996, between The Homestead of Garden City, L.C., as Landlord, and Integrated Living Communities at Garden City, Inc., as Tenant.+	
10.15	Purchase Option Agreement, dated as of June 18, 1996, by and between The Homestead of Garden City, L.C., as Owner, and Integrated Living Communities at Garden City, Inc., as Optionee.+	
10.16	Right of First Refusal Agreement, dated as of June 18, 1996, by and between The Homestead of Garden City, L.C. and Integrated Living Communities at Garden City, Inc.+	
10.17	Sublease, dated as of June 1, 1996, between Integrated Living Communities of Bradenton, Inc. and Integrated Health Services of Lester, Inc. (relating to "The Shores").+	
10.18	Guaranty, dated as of June 1, 1996, by Integrated Living Communities, Inc. for the benefit of Integrated Health Services of Lester, Inc. and Litchfield Asset Management Corp.+	
10.19	Sublease, dated as of June 1, 1996, between Integrated Living Communities of Bradenton, Inc. and Integrated Health Services of Lester, Inc. (relating to "Cheyenne").+	
10.20	Registration Rights Agreement, dated as of June 1, 1996, between Integrated Living Communities, Inc. and Integrated Health Services, Inc.	
10.21	Purchase and Sale Agreement, dated as of October 4, 1995, between Liberty Carrington Pointe . Limited Partnership, as Seller, and Integrated Management-Carrington Pointe, Inc., as Buyer.+	
10.22	First Amendment to Purchase and Sale Agreement, dated as of December 15, 1995, between Liberty/Carrington Pointe Limited Partnership, as Seller, and Integrated Management-Carrington Pointe, Inc., as Buyer.+	
10.23	Employment Agreement, dated as of May 1, 1996, between the Company and Edward J. Komp.+	
10.24	Employment Agreement, dated as of May 1, 1996, between the Company and Kayda Johnson.+	
10.25	Employment Agreement, dated as of May 1, 1996, between the Company and John Poole.+	
10.26	Employment Agreement, dated as of May 1, 1996, between the Company and Kyle Shatterly.+	
10.27	Form of Indemnification Agreement for officers and directors.+	
10.28	Stock Incentive Plan.	
10.29	Form of Option Agreement under Stock Incentive Plan.	
10.30	Non-Employee Director Stock Option Plan.	
10.31	Form of Option Agreement under Non-Employee Director Stock Option Plan.	
10.32	Form of Non-Plan Director Option.	
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24.2	Certified Resolution.+
27.	Financial Data Schedule+

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* To be filed by amendment.

+ Previously filed.

RESTATED CERTIFICATE OF
OF
INCORPORATION
OF
INTEGRATED LIVING COMMUNITIES, INC.

INTEGRATED LIVING COMMUNITIES, INC. (the "Corporation", a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "GCL"), in order to amend and restate its Certificate of Incorporation pursuant to Sections 242 and 245 of the GCL, certifies as follows:

1. The name of the Corporation is Integrated Living Communities, Inc. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of Delaware on November 17, 1995 and was amended on January 11, 1996.

2. This Restated Certificate of Incorporation restates and amends the provisions of the Certificate of Incorporation as heretofore amended or supplemented.

3. The Board of Directors of the Corporation, acting at a meeting duly noticed and held pursuant to Section 141 of the GCL adopted a resolution proposing and declaring advisable the adoption of a Restated Certificate of Incorporation of the Corporation in the form hereinafter set forth in Item 6.

4. The stockholders of the Corporation, acting by written consent pursuant to the provisions of Section 228 of the GCL, duly adopted this Restated Certificate of Incorporation in the form hereinafter set forth in Item 6.

5. The aforesaid Restated Certificate of Incorporation was duly adopted in accordance with the applicable provisions of Sections 228, 242 and 245 of the GCL.

6. The text of the Certificate of Incorporation, as amended or supplemented heretofore, is hereby amended and restated so as to read in its entirety as follows:

ARTICLE I

Name

The name of the Corporation is: Integrated Living Communities, Inc.

ARTICLE II

Purposes

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the GCL.

ARTICLE III

Agent for Service

The name and address in the State of Delaware of the Corporation's registered agent for service of process is: Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle 19801.

ARTICLE IV

Capital Stock

A. The total number of shares of stock which the Corporation is authorized to issue is fifty-five million (55,000,000) shares, of which fifty million (50,000,000) shares, par value $.01 per share. Thereof shall be Common Stock and five million (5,000,000) shares, par value $.01 per share thereof shall be Preferred Stock.

B. The Board of Directors is hereby expressly authorized, by resolution or resolutions from time to time adopted, to provide for the issuance of the Preferred Stock in series and to fix and state, to the extent not fixed by the provisions hereinabove set forth and subject to limitations prescribed by law, the voting powers, designations, preferences and relative, participating, optional and other special rights of the shares of each such series and the qualifications, limitations and restrictions thereof, including, but not limited to, determiniation of any of the following:

(a) the distinctive serial designation and the number of shares constituting the series;

(b) the dividend rate, whether dividends shall be cumulative and, if so, from which date, the payment date or dates for dividends, and the participating or other special rights, if any, with respect to dividends;

(c) the voting powers, full or limited in addition to the voting powers provided by law;

(d) whether the shares shall be redeemable, and, if so, the price or

prices at which, and the terms and conditions on which, the shares may be redeemed;

(e) the amount or amounts payable upon the shares in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(f) whether the shares shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of the series, and, if so entitled, the amount of such fund and the manner of its application, including the price or prices at which the shares may be redeemed or purchased through the applications of such fund; and

(g) whether the shares shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation and, if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made and any other terms and conditions of such conversion or exchange.

Each share of each series of Preferred Stock shall have the same relative rights as and be identical in all respects with all the other shares of the same series.

ARTICLE V

By-Laws

In furtherance and not in limitation of the objects, purposes and powers conferred by statute, the Board of Directors is expressly authorized to make, alter or repeal the By-Laws of the Corporation.

ARTICLE VI

Certain Rights of Creditors and Stockholders

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of

any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Title 8 of the GCL or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Title 8 of the GCL, order a meeting of the creditors or class of creditors and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders of this Corporation, as the case may be, and also on this Corporation.

ARTICLE VII

Indemnification

The Corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact tht he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his conduct was unlawful. The termination of any action, upon a plea of nolo

contendere or equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

ARTICLE VIII

Limitation of Liability

A director of the Corporation shall have no personal liability to the Corporation or its stockholders for monetary damages for breach of his fiduciary duty as a director, provided, however, this Article shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of a law; (iii) for the unlawful payment of dividends or unlawful stock repurchases under Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. This Article shall not eliminate or limit the liability of a director for any act or omission occurring prior to the effective date of this Article.

ARTICLE IX

Board of Directors

A. Subject to the rights of the holders of any one or more series of Preferred Stock, the number of directors constituting the entire Board of Directors shall be as fixed from time to time by vote of a majority of the directors constituting the entire Board of Directors, provided, however, that the number of directors shall not be reduced so as to shorten the term of any director at the time in office.

B. The Board of Directors shall be divided into three classes, as nearly equal in number as the then total number of directors constituting the entire Board of Directors permits with the term of office of one class expiring each year. At the annual meeting of stockholders in 1996, directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting, directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting, and directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting.

Any vacancies in the Board of Directors for any reason, and any directorships resulting from any increase in the number of directors, may be filled only by the Board of Directors, acting by a majority of the directors then in office, although less than a quorum, and any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified. Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall be governed by the terms of the resolutions adopted by the Board of Directors pursuant to Article IV hereof

and such directors so elected shall not be divided into classes pursuant to this Article IX unless expressly provided by such terms. Subject to the foregoing, at each annual meeting of stockholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting of stockholders. When the number of directors is changed, any newly-created directorships or any decrease in directorships shall be so apportioned among the classes by the Board of Directors as to make all classes as nearly equal in number as possible.

C. Notwithstanding any other provisions of this Restated Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law, this Restated Certificate of Incorporation or the By-Laws of the Corporation), any director or the entire Board of Directors of the Corporation may be removed at any time, but only for cause and only by the affirmative vote of the holders of 75% or more of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (considered for this purpose as one class) cast at a meeting of the stockholders called for that purpose. Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the provisions of section (c) of this Article shall not apply with respect to the director or directors elected by such holders of Preferred Stock.

D. The provisions of this Article shall not be amended or repealed, nor shall any provision of this Restated Certificate of Incorporation be adopted that is inconsistent with this Article, unless such action shall have been approved by the affirmative vote of the holders of at least

75% of the outstanding shares of capital stock of the Corporation entitled to vote thereon cast at a meeting of the stockholders called for that purpose.

ARTICLE X

Duration

The Corporation is to have perpetual existence.

ARTICLE XI

Stockholder Meetings; Books

Meetings of the stockholders may be held within or without the State of Delaware, as the By-Laws may provide. The books of the Corporation may be kept, subject to any provisions contained in the statutes, outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors in the By-Laws of the Corporation. Any action required or permitted to be taken at any annual or special meeting of stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing by the stockholders, unless the number of stockholders is fewer than two. At any annual or special meeting of stockholders only such business shall be conducted as shall have been brought before such meeting in the manner provided from time to time in the By-Laws of the Corporation. Except as otherwise required by law and subject to the rights of holders of Preferred Stock, if any, special meetings of stockholders may only be called by the Board of Directors of the Corporation pursuant to a resolution approved by a majority of the entire Board of Directors, the Chairman of the Board of Directors or the President. Notwithstanding anything contained in this Restated Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least eighty percent (80%) of the Corporation entitled to vote generally in the election of Directors voting together as a single class shall be required to alter, amend, adopt any provision inconsistent with or repeal this Article XI.

ARTICLE XII

Amendments

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereinafter prescribed by

statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

7. This Restated Certificate of Incorporation was duly adopted by the stockholders of the Corporation on May 24, 1996, in accordance with the provisions of Sections 228, 242 and 245 of the GCL.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seal this 4th day of June 1996.

INTEGRATED LIVING COMMUNITIES, INC.

By: /s/ Edward J. Komp

Edward J. Komp
President

ATTEST:

Kyle Shatterly

Asst. Secretary

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

* * * * *

Integrated Living Communities, Inc. a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY;

FIRST: That at a meeting of the Board of Directors of Integrated Living Communities, Inc., resolutions were duly adopted setting forth a proposed amendment to the Restated Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment as follows:

> RESOLVED, that the Restated Certificate of Incorporation of Integrated Living Communities, Inc. be amended by changing the Fourth Article Section A thereof sot that, as amended, saind Article shall be and read as follows:
>
> The total number of shares of stock which the Corporation is authorized to issue is one hundred five million (105,000,000) shares, of which one hundred million (100,000,000) shares, par value $.01 per share thereof shall be Common Stock and five million (5,000,000) shares, par value $.01 per share thereof shall be Preferred Stock.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held, upon written waiver of notice signed by all stockholders at which meeting the necessary number of shares as required by statute were voted in favor of the.

THIRD: That said was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware. That this Certificate of Amendment of the

Restated Certificate of Incorporation shall be effective on June 12, 1996.

IN WITNESS WHEREOF, said Integrated Living Communities, Inc. has caused this certificate to be signed by Edward J. Komp, its President, this Twelth day of June, 1996.

Integrated Living Communities, Inc.

By: /s/ Edward Komp

Edward J. Komp
President

FULBRIGHT & JAWORSKI
L.L.P.
A REGISTERED FIFTH AVENUE
NEW YORK, NEW YORK 10103-3198

HOUSTON
WASHINGTON, D.C.
AUSTIN
SAN ANTONIO
DALLAS
NEW YORK
LOS ANGELES
LONDON
HONG KONG

TELEPHONE: 212/318-3000
FACSIMILE: 212/752-5958
WRITER'S INTERNET ADDRESS:

WRITER'S DIRECT DIAL NUMBER:

August 26, 1996

Integrated Living Communities, Inc.
10065 Red Run Boulevard
Owings Mills, Maryland 21117

Re: Registration Statement on Form S-1
Registration No. 333-05877

Dear Ladies and Gentlemen:

In connection with the Registration Statement on Form S-1, Registration No. 333-05877 (the "Registration Statement") filed by Integrated Living Communities, Inc., a Delaware corporation (the "Company"), under the Securities Act of 1933, as amended (the "Act"), relating to the public offering of an aggregate of up to 5,900,190 shares of the Company's Common Stock, par value $.01 per share (the "Common Stock"), of which 3,205,290 shares of authorized but heretofore unissued shares of Common Stock (including up to 769,590 shares of Common Stock which will be purchased by the underwriters if the underwriters exercise in full the option granted to them by the Company to cover over-allotments) are being offered by the Company and up to 2,694,900 presently issued and outstanding shares of Common Stock are being offered by Integrated Health Services, Inc. ("IHS"), we, as counsel for the Company, have examined such corporate records, other documents and questions of law as we have considered necessary or appropriate for the purposes of this opinion. Our opinion set forth below is limited to the General Corporation Law of the State of Delaware.

We assume that appropriate action will be taken, prior to the offer and sale of the shares of Common Stock, to register and qualify such shares for sale under all applicable state securities or "blue sky" laws.

In our examination of the foregoing documents, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based on the foregoing, we advise you that in our opinion (i) the shares of Common Stock being issued and sold by the Company have been duly and validly authorized and, when issued and sold in the manner contemplated by the Underwriting

Agreement, a form of which will be filed as an exhibit to the Registration Statement (the "Underwriting Agreement"), and upon receipt by the Company of payment therefor as provided in the Underwriting Agreement, will be legally issued, fully paid and non-assessable, and (ii) the shares of Common Stock being sold by IHS have been duly and validly authorized and are legally issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and the reference to this firm under the caption "Legal Matters" in the Prospectus contained therein. This consent is not to be construed as an admission that we are a party whose consent is required to be filed with the Registration Statement under the provisions of the Act or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

The opinion expressed herein is solely for your benefit, and may be relied upon only by you.

Very truly yours,

/s/ Fulbright & Jaworski L.L.P.

REGISTRATION RIGHTS AGREEMENT

AGREEMENT, dated as of June 1, 1996, by and between Integrated Living Communities, Inc. (the "Company"), a Delaware corporation, and Integrated Health Services, Inc., a Delaware corporation ("IHS").

RECITALS:

WHEREAS, the Company, a wholly-owned subsidiary of IHS, proposes to offer shares of its Common Stock to the public pursuant to a registration statement filed with, and declared effective by, the Commission (as hereinafter defined) under the Securities Act (as hereinafter defined).

WHEREAS, the Company and IHS desire to establish certain terms and conditions upon which the Company will register the shares of the Company's Common Stock owned by IHS.

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements of the parties as set forth herein and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Common Stock" shall mean the Company's Common Stock, $.01 par value per share.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, and shall include any successor statute.

"Holder" shall mean any holder of outstanding Registrable Securities.

"Register," "registered" and "registration" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Registered Securities" shall mean Registrable Securities which have been registered under the Securities Act pursuant to a registration

statement filed with and declared effective by the Commission.

"Registrable Securities" shall mean shares of Common Stock now owned or hereafter acquired by IHS or its assignees pursuant to Section 10 hereof which have

not been (a) registered under the Securities Act pursuant to an effective registration statement filed thereunder and disposed of in accordance with the registration statement covering them or (b) publicly sold pursuant to Rule 144.

"Registration Expenses" shall mean all expenses incurred by the Company in compliance with Sections 2, 4 and 5 hereof, including, without limitation, all registration, filing and National Association of Securities Dealers fees, all fees and expenses of complying with securities or blue sky laws, all word processing, duplicating and printing expenses, messenger, telecommunications, mailing and delivery expenses, the fees and disbursements of counsel for the Company and of its independent public accountants, including the expenses of any special audits or "cold comfort" letters required by or incident to such performance and compliance, the fees and disbursements incurred by the holders of Registrable Securities to be registered (including the fees and disbursements of one law firm and one accounting firm retained by such Holders in accordance with Section 2 hereof), premiums and other costs of policies of insurance against liabilities arising out of the public offering of the Registrable Securities being registered and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities, but excluding Selling Expenses, if any, provided that, in any case where Registration Expenses are not to be borne by the Company, such expenses shall not include salaries of Company personnel or general overhead expenses of the Company, auditing fees, premiums or other expenses relating to liability insurance required by underwriters of the Company or other expenses for the preparation of financial statements or other data normally prepared by the Company in the ordinary course of its business or which the Company would have incurred in any event.

"Rule 144" shall mean Rule 144 promulgated under the Securities Act, or any successor rule then in force.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations thereunder, and shall include any successor statute.

"Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities.

Section 2. Piggyback Registration.

(a) If the Company shall determine to register any of its securities either for its own account or the account of a security holder or holders exercising their respective demand registration rights, other than a registration on any form which does not permit secondary sales or does not include substantially the same information as would be required to be included in a registration statement covering the sale of Registrable Securities, the Company will:

(i) promptly give to each Holder written notice thereof (which shall include a list of the jurisdictions in which the Company intends to

attempt to qualify such securities under the applicable blue sky or other state securities laws); and

(ii) include in such registration (and any related qualification under blue sky laws or other compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests made by any Holder within twenty-five (25) days after receipt of the written notice from the Company described in clause (i) above. Such written request may specify all or a part of a Holder's Registrable Securities.

For purposes of any registration pursuant to this Section 2 the Holders of a majority-in-interest of the Registrable Securities to be registered shall choose the counsel for all of the selling Holders. Notwithstanding the foregoing provisions, the Company may withdraw any registration statement referred to in this Section 2 for any reason without thereby incurring any liability to the Holders requesting inclusion of their Registrable Securities in such registration.

(b) Underwriting. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise each Holder as a part of the written notice given pursuant to Section 2(a)(i). If any Holder proposes to distribute its securities through such underwriting it shall (together with the Company and the other persons who, by virtue of agreements with the Company, are entitled to include their securities in any such registration (the "Other Stockholders") distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected by the Company. Notwithstanding any other provision of this Section 2, if the managing underwriter advises the Company that marketing factors require a limitation on the number of shares to be underwritten, the Company shall so

advise all holders of securities requesting registration, and the number of shares of securities that are entitled to be included in the registration and underwriting shall be allocated in the following manner: the securities of the Company held by officers and directors of the Company shall be excluded from such registration and underwriting to the extent required by such limitation (pro rata based upon the number of securities requested to be included in such registration by each such person), and, if further limitation on the number of shares is required, the securities of the Company held by Other Stockholders (other than Other Stockholders exercising demand registration rights) shall be excluded from such registration to the extent required by such limitation (pro rata based upon the number of securities requested to be included in such registration by each such person), and if a further limitation on the number of shares is required, the Registrable Securities that may be included in the registration and underwriting shall be allocated among all such Holders requesting inclusion in the registration pursuant to this Section 2 in proportion, as nearly as practicable, to the respective amounts of Registrable Securities which they had requested to be included in such registration at the time of filing the registration statement. If any Holder or any officer or director of the Company or Other Stockholder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the managing underwriter. Any Registrable Securities or other securities

excluded or withdrawn from such underwriting shall, subject to the provisions of Section 2(c), be withdrawn from such registration.

Section 3. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Agreement shall be borne by the Company, and all Selling Expenses shall be borne by the Holders of the securities so registered pro rata on the basis of the number of their shares so registered

Section 4. Registration on Form S-3. After the Company has qualified for the use of Form S-3 or any successor form, in addition to the rights contained in the foregoing provisions of this Agreement, the Holders of Registrable Securities shall have the right to request registrations on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended methods of disposition of such shares by such Holder or Holders); provided, however, that the Company shall not be obligated to file more than one Form S-3 in any six-month period.

Notwithstanding the foregoing, the Company shall not be required to effect registration under this Section 4 if counsel for the Company,

reasonably acceptable to the Holders requesting registration, shall deliver an opinion reasonably acceptable to the Holders requesting registration that, pursuant to Rule 144 under the Securities Act or otherwise, such Holders can publicly sell the Registrable Securities as to which registration has been requested without registration under the Securities Act and without any limitation with respect to offerees, manner of offering or the size of the transaction.

Section 5. Registration Procedures. In the case of each registration effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of each registration and as to the completion thereof. Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Agreement, the Company will use its best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto the Company will at its expense and as expeditiously as possible:

(a) Prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective; provided that before filing a registration statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference after the initial filing of any registration statement, the Company shall furnish to the Holders of the Registrable Securities covered by such registration statement and the underwriters, if any, copies of all such documents proposed to be filed, which documents will be subject to the review of such Holders and underwriters;

(b) Prepare and file with the Commission such amendments and post-effective amendments to a registration statement as may be necessary to keep such registration effective for a period of twelve (12) months or until the Holder or Holders have completed the distribution described in the registration statement relating thereto, whichever first occurs; provided, however, that the Company, in good faith, may delay the filing of any amendment or supplement to the Registration Statement for a reasonable period of time, not to exceed 120 days, in order to permit the Company (A) to effect disclosure or disposition or consummation of any transaction requiring confidential treatment which is being actively pursued at such time and which would require disclosure in the Registration Statement or (B) to negotiate, effect or complete any transaction which the Company reasonably believes might be jeopardized, delayed or made more costly to the Company by disclosure in the Registration Statement; and provided further, however, that (i) such 12 month period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration in accordance with the provisions of Section 11

hereof; (ii) such 12 month period shall be extended by the number of days during the period from and including the date of the giving of notice pursuant to Section 5(e) hereof to and including the date when each Holder of Registrable Securities covered by such registration statement shall have received the copies of the supplemented or amended prospectus contemplated by Section 5(e) hereof; and (iii) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such 12 month period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold, provided that Rule 415, or any successor rule under the Securities Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Securities Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (y) includes any prospectus required by Section 10(a)(3) of the Securities Act or (z) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference in the registration statement of periodic reports filed pursuant to Section 13 or 15(d) of the Exchange Act that contain the information required to be included in (y) and (z) above;

(c) Cause the related prospectus to be supplemented by any required prospectus supplement, and as so supplemented, to be filed pursuant to Rule 424 under the Securities Act; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement or supplement to such prospectus;

(d) Furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus as a Holder from time to time may reasonably request;

(e) Notify each seller of Registered Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an

untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and at the request of any such seller, prepare and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not

misleading in the light of the circumstances then existing;

(f) Cause all such Registered Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed or, if not then listed, cause such Registered Securities to be included in a national automated quotation system;

(g) Provide a transfer agent and registrar for all Registered Securities and a CUSIP number for all such Registered Securities, in each case not later than the effective date of such registration;

(h) Make available for inspection during regular business hours by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by any such seller or underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company (collectively the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by such seller, underwriter, attorney or accountant in connection with such registration statement. Records which the Company determines, in good faith, to be confidential and which it notifies the Inspectors are confidential shall not be disclosed by the Inspectors unless (A) the disclosure of such Records is necessary to avoid or correct any misstatement or omission in the registration statement, (B) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction, or (C) the disclosure of such Records is required by any governmental regulatory body with jurisdiction over any seller of Registrable Securities. Such seller, upon learning, that disclosure of such Records is sought in a court of competent jurisdiction, shall notify the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential;

(i) Cooperate with the sellers of Registered Securities and the managing underwriter(s), if any, to facilitate the timely preparation and delivery of certificates representing the Registered Securities to be sold, without any restrictive legends, in such denominations and registered in such names as the managing underwriter(s) may request at least two business days prior to any sale thereof to the underwriters, if applicable;

(j) Obtain from its accountants "cold-comfort" letters, dated the effective date of the registration statement and the date of the closing of the sale of the

Registered Securities, and addressed to the Company and the selling Holders, in form and substance as are customarily issued in connection with underwritten

public offerings and otherwise reasonably satisfactory to the Company and a majority-in-interest of the selling Holders;

(k) Obtain from its counsel an opinion, addressed to the selling Holders, with respect to the offering in form and substance reasonably satisfactory to a majority-in-interest of the selling Holders;

(l) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act;

(m) In connection with any underwritten offering pursuant to a registration statement filed pursuant to Section 4 hereof, the Company will enter into any underwriting agreement reasonably necessary to effect the offer and sale of Common Stock, provided such underwriting agreement contains customary underwriting, indemnification and contribution provisions; provided, however, that no Holder will be liable for indemnification or contribution in excess of the net proceeds such Holder received in the offering;

(n) Use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller (provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subparagraph, (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(o) Use its best efforts to cause such Registrable Securities covered by such registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the sellers thereof to consummate the disposition of such Registrable Securities; and

(p) Take all such other actions as the Holders of a majority of the Registrable Securities being sold and the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities (including, without limitation, effecting a stock split or combination of shares).

Section 6. Indemnification; Contribution.

(a) To the extent permitted by law, the Company will indemnify each Holder, each of its officers, directors, members and partners, and each person controlling such Holder, with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, each director and controlling person of the Company and each officer of the Company who signed the registration statement, and each underwriter, if any, and each person who controls any underwriter, against all claims, losses, damages and liabilities (or actions, proceedings or settlements, if such settlements are effected with the written consent of the Company, in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or the Exchange Act or any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each of its officers, directors, members and partners, and each person controlling such Holder, each such director, controlling person and officer, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending or settling any such claim, loss, damage, liability, action or proceeding; provided, however, that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by such Holder or underwriter and stated to be specifically for use therein.

(b) To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors, officers and controlling persons, and each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter within the meaning of the Securities Act or the Exchange Act or the rules and regulations thereunder, each other such Holder and Other Stockholder (if and to the extent such Other Stockholder has agreed to indemnify the Holders as set forth in this clause (b)) including Registrable Securities and other securities in the securities as to which such registration, qualification or compliance is being effected, and each of their officers, directors, members and partners, and each person controlling such Holder or Other Stockholder, against all claims, losses, damages and liabilities (or actions, proceedings or settlements in respect thereof) arising out of or based on any untrue statement (or alleged

untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and such Holders, Other Stockholders,

directors, officers, members, partners, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating and defending or settling any such claim, loss, damage, liability, action or proceeding, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by such Holder and stated to be specifically for use therein; provided, however, that the obligations of each such Holder hereunder shall be limited to an amount equal to the net proceeds to each such Holder of securities sold as contemplated herein.

(c) Each party entitled to indemnification under this Section 6 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement, unless such failure to notify materially adversely affects the Indemnifying Party's ability to defend such action. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

(d) If the indemnification provided for in this Section 6 shall for any reason be unenforceable by an Indemnified Party, although otherwise available in accordance with its terms, then each Indemnifying Party shall, in lieu of indemnifying such Indemnified Party, contribute to the amount

paid or payable by such Indemnified Party as a result of the losses, claims, damages, liabilities or expenses with respect to which such Indemnified Party has claimed indemnification, in such proportion as is appropriate to reflect the relative fault of the Indemnified Party on the one hand and the Indemnifying Party on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault, in the case of an untrue statement, alleged untrue statement, omission or alleged omission, shall be determined by, among other things, whether such statement, alleged statement, omission or alleged omission relates to information supplied by the Indemnifying Party or the Indemnified Party, and such parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement, alleged statement, omission or alleged omission. The Company and each Holder agree that it would not be just and equitable

if contribution pursuant hereto were to be determined by pro rata allocation or by any other method of allocation which does not take into account such equitable considerations. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages, liabilities or expenses referred to herein shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending against any action or claim which is the subject hereof. In no case, however, shall a Holder be responsible for a portion of the contribution obligation in excess of the net proceeds to such Holder of securities sold as contemplated herein. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation.

(e) Anything to the contrary contained in this Section 6 notwithstanding, no Holder shall be liable for any indemnification or contribution in excess of the net proceeds received by it from any sale of Registrable Securities which has been registered hereunder.

Section 7. Obligations of Holder.

(a) Each Holder of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder and the distribution proposed by such Holder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

(b) Each Holder of the Registrable Securities agrees by acquisition of such Registered Securities that upon receipt of any notice from

the Company pursuant to Section 5(e), such Holder will forthwith discontinue such Holder's disposition of Registered Securities pursuant to the registration statement relating to such Registered Securities until such Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 5(e) and, if so directed by the Company, will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such Holder's possession of the prospectus relating to such Registered Securities at the time of receipt of such notice.

Section 8. Limitations on Registration of Issues of Securities. Any right given by the Company to any holder or prospective holder of the Company's securities in connection with the registration of securities shall be conditioned such that it shall be consistent with the rights of the Holders provided in this Agreement.

Section 9. Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the Commission which may permit a Holder to sell securities of the Company to the public without registration, the Company agrees to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times following the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) Use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act at any time following registration of any of its securities under the Securities Act or Exchange Act; and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time following the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act following registration of any of its securities under the Securities Act or Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents

so filed as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing a Holder to sell any such securities without registration.

Section 10. Transfer or Assignment of Registration Rights. The rights to cause the Company to register the securities granted to IHS by the Company under Sections 2 and 4 may be transferred or assigned by IHS to a transferee or assignee of any of IHS' Registrable Securities; provided, however, that the Company is given written notice by IHS at the time of or within a reasonable time after said transfer or assignment, stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being transferred or assigned; and provided, further, that the transferee or assignee of such rights assumes the obligations of IHS under this Agreement.

Section 11. "Market Stand-off" Agreement. Each Holder agrees, if requested by the Company and an underwriter of Common Stock (or other securities) of the Company, not to sell or otherwise transfer or dispose of any Common Stock (or other securities) of the Company held by such Holder during the period required by such underwriter following the effective date of a registration statement of the Company filed under the Securitie Act without the prior consent of such underwriter, provided, however, that all Holders, Other Stockholders and officers and directors of the Company enter into similar agreements on substantially similar terms.

Such agreement shall be in writing in a form reasonably satisfactory to the Company and such underwriter. The Company may impose stop-transfer instructions with respect to the shares (or securities) subject to the foregoing restriction until the end of said period.

Section 12. Adjustments Affecting Registrable Securities. The Company will not take any action, or permit any change to occur, with respect to the Registrable Securities which would adversely affect the ability of the Holders of Registrable Securities to include such Registrable Securities in a registration undertaken pursuant to this Agreement or which would adversely affect the marketability of such Registrable Securities in any such registration.

Section 13. Governing Law. This Agreement shall be governed in all respects by the laws of the State of Delaware, without application of the conflicts of laws principles thereof.

Section 14. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the successors, assigns, heirs, executors and administrators of the parties hereto.

Section 15. Entire Agreement; Amendment. This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subjects hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated, except by a written instrument signed by the Company and the Holders of not less than a majority-in-interest of the Registrable Securities. Notwithstanding the foregoing, no amendment, modification, supplement or waiver of, or departure from, Section 6 or this sentence of this Section 15 shall be effective without the written consent of all Holders then holding Registrable Securities.

Section 16. Attorney's Fees. In any action or proceeding brought to enforce any provision of this Agreement, or where any provision hereof or thereof is validly asserted as a defense, the successful party shall be entitled to recover reasonable attorney's fees in addition to any other available remedy.

Section 17. Notices, etc. All notices or other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or sent by telex, telefax or telegraphic communication, by recognized overnight courier marked for overnight delivery, or by registered or certified mail, postage prepaid, addressed as follows: (a) if to IHS, at 10065 Red Run Boulevard, Owings Mills, Maryland 21117, Attention: Chairman of the Board or at such other address as IHS shall have furnished to the Company in writing,if to an Investor, as indicated on Schedule 1 attached hereto, or at such other address as such Investor shall have furnished to the Company in writing; (b) if to any other holder of any shares of Common Stock at such address as such holder shall have furnished the Company in writing, or, until any such holder so furnishes an address to the Company, then to and at the address of the last holder thereof who has so furnished an address to the Company; or (c) if to the Company, at 10065 Red Run boulevard, Owings Mills, Maryland 21117, Attention: President, or such other addresses as shall be furnished by like notice by such party. All such notices and communications shall, when telexed (provided the correct answerback has been received) or telefaxed (immediately thereafter confirmed by telephone) or telegraphed, be effective when telexed, telefaxed or delivered to the telegraph company, respectively, or if sent by nationally recognized overnight courier service, be effective one business day after the same has been delivered to such courier service marked for overnight delivery, or, if mailed, be effective when received.

Section 18. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner so as to be effective and

valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement. If any provision contained in this Agreement is determined to be invalid, illegal or unenforceable as written, a court of competent jurisdiction shall, at any party's request, reform the terms of this Agreement to the extent necessary to cause such otherwise invalid provisions to be enforceable under applicable law.

Section 19. Titles and Subtitles. The titles of the sections, paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

Section 20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day, month and year first written above.

INTEGRATED LIVING COMMUNITIES, INC.

By: /S/ Edward J. Komp

Name: Edward J. Komp
Title: President/CEO

INTEGRATED HEALTH SERVICES, INC.

By: /s/ Lawrence P. Cirka

Name: Lawrence P. Cirka
Title: President

INTEGRATED LIVING COMMUNITIES, INC.
1996 STOCK INCENTIVE PLAN

1. Purpose. The purpose of the Integrated Living Communities, Inc. 1996 Stock Incentive Plan (the "Plan") is to enable Integrated Living Communities, Inc. (the "Company") and its stockholders to secure the benefits of common stock ownership by key personnel of the Company and its subsidiaries. The Board of Directors of the Company (the "Board") believes that the granting of restricted stock and options under the Plan will foster the Company's ability to attract, retain and motivate those individuals who will be largely responsible for the continued profitability and long-term future growth of the Company.

2. Stock Subject to the Plan. The Company may issue and sell a total of 470,040 shares of its common stock, $.01 par value (the "Common Stock"), pursuant to the Plan. Such shares may be either authorized and unissued or held by the Company in its treasury. Awards of restricted stock or options to purchase stock ("Awards") may be granted under the Plan with respect to shares of Common Stock (i) which are covered by the unexercised portion of an option which has terminated or expired by its terms, by cancellation or otherwise, or (ii) which were unvested shares of restricted stock subsequently reacquired by the Company.

3. Administration. The Plan will be administered by a committee (the "Committee") consisting of at least two directors appointed by and serving at the pleasure of the Board. To the extent required by the applicable provisions of Rule 16(b)-3 under the Securities Exchange Act of 1934, the members of the Committee shall be "disinterested directors" within the meaning and for the purposes of said Rule. Subject to the provisions of the Plan, the Committee, acting in its sole and absolute discretion, will have full power and authority to grant Awards under the Plan, to interpret the provisions of the Plan, to fix and interpret the provisions of Award agreements made under the Plan, to supervise the administration of the Plan, and to take such other action as may be necessary or desirable in order to carry out the provisions of the Plan. A majority of the members of the Committee will constitute a quorum. The Committee may act by the vote of a majority of its members present at a meeting at which there is a quorum or by unanimous written consent. The decision of the Committee as to any disputed question, including questions of construction, interpretation and administration, will be final and conclusive on all persons. The Committee will keep a record of its proceedings and acts and will keep or cause to be kept such books and records as may be necessary in connection with the proper administration of the Plan.

4. Eligibility. Awards may be granted under the Plan to present or future key employees of the Company or a subsidiary of the Company (a "Subsidiary") within the meaning of Section 424(f) of the Internal Revenue Code of 1986 (the "Code"), and to consultants to the Company or a Subsidiary who are not employees. Awards may not be granted to directors of the Company or a

Subsidiary who are not also employees of or consultants to the Company and/or a Subsidiary. Subject to the

provisions of the Plan, the Committee may from time to time select the persons to whom Awards will be granted, and will fix the number of shares covered by each such Award and establish the terms and conditions thereof, including, without limitation, the exercise price of options, restrictions on exercisability of options or on the disposition of the shares of Common Stock issued upon exercise of options, and whether or not the option is to be treated as an incentive stock option within the meaning of Section 422 of the Code (an "Incentive Stock Option"), and the purchase price, vesting provisions, restrictions on transfer and repurchase price of restricted stock.

5. Terms and Conditions of Option Awards. Each option granted under the Plan will be evidenced by a written agreement in a form approved by the Committee. Each such option will be subject to the terms and conditions set forth in this paragraph and such additional terms and conditions not inconsistent with the Plan (and, in the case of an Incentive Stock Option, not inconsistent with the provisions of the Code applicable thereto) as the Committee deems appropriate.

(a) Option Exercise Price. In the case of an option which is not treated as an Incentive Stock Option, the exercise price per share may not be less than the par value of a share of Common Stock on the date the option is granted; and, in the case of an Incentive Stock Option, the exercise price per share may not be less than 100% of the fair market value of a share of Common Stock on the date the option is granted (110% in the case of an optionee who, at the time the option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a Subsidiary (a "ten percent shareholder")). For purposes hereof, the fair market value of a share of Common Stock on any date will be equal to the closing sale price per share as published by a national securities exchange on which shares of the Common Stock are traded on such date or, if there is no sale of Common Stock on such date, the average of the bid and asked prices on such exchange at the closing of trading on such date or, if shares of the Common Stock are not listed on a national securities exchange on such date, the closing price or, if none, the average of the bid and asked prices in the over the counter market at the close of trading on such date, or if the Common Stock is not traded on a national securities exchange or the over the counter market, the fair market value of a share of the Common Stock on such date as determined in good faith by the Committee.

(b) Option Period. The period during which an option may be exercised will be fixed by the Committee and will not exceed 10

years from the date the option is granted (5 years in the case of an Incentive Stock Option granted to a "ten percent shareholder").

(c) Exercise of Options. No option will become exercisable unless the person to whom the option is granted remains in the continuous employ or service of the Company or a Subsidiary for at least one year (or for such other period as the Committee may designate) from the date the option is granted. Vesting or other restrictions on the exercisability of an option will be set forth in the related option agreement.

All or part of the exercisable portion of an option may be exercised at any time during the option period. An option may be exercised by transmitting to the Company (1) a written notice specifying the number of shares to be purchased, and (2) payment of the exercise price in cash or by personal check or by such other means or in such other manner of payment as the Committee may permit, together with the amount, if any, deemed necessary by the Committee to enable the Company to satisfy its income tax withholding obligations with respect to such exercise (unless other arrangements acceptable to the Company are made with respect to the satisfaction of such withholding obligations).

(d) Payment of Exercise Price. The purchase price of shares of Common Stock acquired pursuant to the exercise of an option granted under the Plan may be paid in cash and/or such other form of payment as may be permitted under the option agreement, including, without limitation, previously-owned shares of Common Stock.

(e) Rights as a Stockholder. No shares of Common Stock will be issued in respect of the exercise of an option granted under the Plan until full payment therefor has been made (and/or provided for where all or a portion of the purchase price is being paid in installments), and the applicable income tax withholding obligation has been satisfied or provided for. The holder of an option will have no rights as a stockholder with respect to any shares covered by an option until the date a stock certificate for such shares is issued to him or her. Except as otherwise provided herein, no adjustments shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

(f) Nontransferability of Options. No option granted under the Plan may be assigned or transferred except by will or by the applicable laws of descent and distribution; and each such option may be exercised during the optionee's lifetime only by the optionee.

(g) Termination of Employment or Other Service. If an optionee ceases to be employed by or to perform services for the Company and any Subsidiary for any reason other than death or disability (defined below), then, unless extended by the Committee acting in its sole discretion, each outstanding option granted to him or her under the Plan will terminate on the date three months after the date of such termination of employment or service, or, if earlier, the date specified in the option agreement. If an optionee's employment or service is terminated by reason of the optionee's death or disability (or if the optionee's employment or service is terminated by reason of his or her disability and the optionee dies within one year after such termination of employment or service), then, unless extended by the Committee acting in its sole discretion, each outstanding option granted to the optionee under the Plan will terminate on the date one year after the date of such termination of employment or service (or one year after the later death of a disabled optionee) or, if earlier, the date specified in the option agreement. For purposes hereof, the term "disability" means the inability of an optionee to perform the customary duties of his or her

employment or other service for the Company or a Subsidiary by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

(h) Incentive Stock Options. In the case of an Incentive Stock Option granted under the Plan, at the time the option is granted, the aggregate fair market value (determined at the time of grant) of the shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by the optionee during any calendar year may not exceed $100,000.

(i) Maximum Option Grant. The maximum option grant which may be made to an executive officer of the Company in any calendar year shall not cover more than 350,000 shares.

(j) Other Provisions. The Committee may impose such other conditions with respect to the exercise of options, including, without limitation, any conditions relating to the application of federal or state securities laws, as it may deem necessary or advisable.

6. Terms and Conditions of Restricted Stock Awards. Each restricted stock Award granted under the Plan will be evidenced by a written agreement in a form approved by the Committee. Each such Award will be subject to the terms and conditions set forth in this paragraph and such additional

terms and conditions not inconsistent with the Plan as the Committee deems appropriate.

(a) Purchase Price. The purchase price per share of restricted stock may not be less than the par value of a share of Common Stock on the date the Award is granted.

(b) Vesting and Transferability of Restricted Stock. No shares of Restricted Stock may be transferred unless the person to whom the Award is granted remains in the continuous employ or service of the Company or a Subsidiary for at least one year (or for such other period as the Committee may designate) from the date the Award is granted. Vesting or other restrictions on the transferability of shares of restricted stock and the Company's right to repurchase unvested restricted stock will be set forth in the related restricted stock agreement.

(c) Payment. Payment of the purchase price of restricted stock may be made in cash or by personal check or by such other means or in such other manner of payment as the Committee may permit, including, without limitation, previously-owned shares of Common Stock, and shall be accompanied by the amount, if any, deemed necessary by the Committee to enable the Company to satisfy its income tax withholding obligations with respect to such exercise (unless other arrangements acceptable to the Company are made with respect to the satisfaction of such withholding obligations).

(d) Maximum Restricted Stock Grant. The maximum restricted stock grant which may be made to an executive officer of the Company in any calendar year shall not cover more than 350,000 shares.

(e) Other Provisions. The Committee may impose such other conditions with respect to the restricted stock Awards, including, without limitation, any conditions relating to the application of federal or state securities laws, as it may deem necessary or advisable.

7. Capital Changes, Reorganization, Sale.

(a) Adjustments Upon Changes in Capitalization. The aggregate number and class of shares for which Awards may be granted under the Plan, the number and class of shares covered by each outstanding Award and the exercise price, purchase price and repurchase price per share shall all be adjusted proportionately for any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or

any like capital adjustment, or the payment of any stock dividend.

(b) Acceleration of Exercisability and Vesting Upon Change in Control of the Company. If there is a change of control of the Company (as defined in subparagraph (g) below), then (A) all outstanding options shall become fully exercisable whether or not the exercisability conditions, if any, set forth in the related option agreements have been satisfied, and each optionee shall have the right to exercise his or her options prior to such change of control and for as long thereafter as the option shall remain in effect in accordance with its terms and the provisions hereof, and (B) all restricted stock Awards shall become fully-vested, and all restrictions on transferability and all rights of the Company to repurchase shares of restricted stock shall terminate at the effective time of such change in control.

(c) Acceleration of Exercisability and Vesting Upon Termination of Employment. If at any time within two years after any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company and either (1) the Company terminates the optionee's employment other than for Cause (as defined in subparagraph (h) below) or (2) the optionee leaves the employ of the Company for Good Reason (as defined in subparagraph (i) below), then (A) all outstanding options held by such optionee shall become fully exercisable whether or not the exercisability conditions, if any, set forth in the related option agreements have been satisfied, and such optionee shall have the right to exercise his or her options prior to such change of control and for as long thereafter as the option shall remain in effect in accordance with its terms and the provisions hereof, and (B) all restricted stock Awards of such person shall become fully-vested, and all restrictions on transferability and all rights

of the Company to repurchase shares of restricted stock shall terminate at the effective time of such termination of employment.

(d) Conversion of Options on Stock for Stock Exchange. If the stockholders of the Company receive capital stock of another corporation ("Exchange Stock") in exchange for their shares of Common Stock in any transaction involving a merger (other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of Common Stock in the surviving corporation immediately after the merger), consolidation, acquisition of property or stock, separation

or reorganization (other than a mere reincorporation or the creation of a holding company), all options granted hereunder shall be converted into options to purchase shares of Exchange Stock unless the Company and the corporation issuing the Exchange Stock, in their sole discretion, determine that any or all such options granted hereunder shall not be converted into options to purchase shares of Exchange Stock but instead shall terminate, subject to the provisions of subparagraph (b) above and the optionees' prior exercise rights thereunder. The amount and price of converted options shall be determined by adjusting the amount and price of the options granted hereunder in the same proportion as used for determining the number of shares of Exchange Stock the holders of the Common Stock receive in such merger, consolidation, acquisition of property or stock, separation or reorganization. In accordance with subparagraph (b) above, the converted options shall be fully exercisable whether or not the exercisability requirements set forth in the option agreement have been satisfied.

(e) Fractional Shares. In the event of any adjustment in the number of shares covered by any option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded and each such option will cover only the number of full shares resulting from the adjustment.

(f) Determination of Board to be Final. All adjustments under this paragraph 7 shall be made by the Board, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. Unless an optionee agrees otherwise, any change or adjustment to an Incentive Stock Option shall be made in such a manner so as not to constitute a "modification" as defined in Section 424(h) of the Code and so as not to cause the optionee's Incentive Stock Option issued hereunder to fail to continue to qualify as an Incentive Stock Option.

(g) Change of Control Defined. For purposes hereof, a change in control of the Company is deemed to occur if (1) there occurs (a) any consolidation or merger in which the Company is not the continuing or surviving entity or pursuant to which shares of the Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (b) any sale, lease, exchange or other transfer (in one transaction or a series of

related transactions) of all or substantially all the Company's assets; (2) the Company's stockholders approve any plan or proposal for the liquidation or

dissolution of the Company; or (3) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority of the Board unless the election, or nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(h) Cause Defined. For purposes hereof, "Cause" shall mean any or all of the following: (i) the optionee materially fails to perform his duties; (ii) the optionee materially breaches his obligation not to disclose confidential information of the Company; (iii) the optionee materially breaches any non-competition covenant the optionee may be subject to; (iv) the optionee is convicted of any felony; (v) the optionee commits theft, larceny or embezzlement of the Company's tangible or intangible property; or (vi) the optionee's employment is terminated for cause under any employment agreement he has with the Company or any subsidiary of the Company.

(i) Good Reason Defined. For purposes hereof, "Good Reason" shall mean any one or more of the following: (i) a material diminution of the optionee's responsibilities, title, authority or status; (ii) a reduction in salary or material reduction in benefits (other than a reduction in salary permitted by any employment agreement to which the optionee is a party); or (iii) the occurrence of any event which would constitute good reason under any employment agreement the optionee has with the Company or any subsidiary of the Company.

8. Amendment and Termination of the Plan. The Board may amend or terminate the Plan. Except as otherwise provided in the Plan with respect to equity changes, any amendment which would increase the aggregate number of shares of Common Stock as to which Awards may be granted under the Plan, materially increase the benefits under the Plan, or modify the class of persons eligible to receive Awards under the Plan shall be subject to the approval of the Company's stockholders. No amendment or termination may affect adversely any outstanding Award without the written consent of the grantee.

9. No Rights Conferred. Nothing contained herein will be deemed to give any individual any right to receive an Award under the Plan or to be retained in the employ or service of the Company or any Subsidiary.

10. Governing Law. The Plan and each Award agreement shall be governed by the laws of the State of Delaware.

11. Decisions and Determinations of Committee to be Final. Except to the extent rights or powers under this Plan are reserved specifically to the discretion of the Board, the Committee shall have full power and authority to interpret the Plan and any Award agreement made under the Plan and to determine all issues which arise

thereunder or in connection therewith, and the decision of the Board or the Committee, as the case may be, shall be binding and conclusive on all interested persons.

12. Term of the Plan. The Plan shall be effective as of June 10, 1996, the date on which it was adopted by the Board and the sole stockholder of the Company. The Plan will terminate on June 10, 2006, the date ten years after the date of adoption by the Board, unless sooner terminated by the Board. The rights of grantees under Awards outstanding at the time of the termination of the Plan shall not be affected solely by reason of the termination and shall continue in accordance with the terms of the Award (as then in effect or thereafter amended).

INTEGRATED LIVING COMMUNITIES, INC.
STOCK OPTION AGREEMENT

AGREEMENT made as of the ____ day of _____, 199__, by and between Integrated Living Communities, Inc., a Delaware corporation (the "Company"), and _____ (the "Optionee").

W I T N E S S E T H:

WHEREAS, pursuant to the Integrated Living Communities, Inc. 1996 Stock Incentive Plan (the "Plan"), the Company desires to grant to the Optionee and the Optionee desires to accept an option to purchase shares of common stock, $.01 par value, of the Company (the "Common Stock") upon the terms and conditions set forth in this agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant. The Company hereby grants to the Optionee an option to purchase _____ shares of Common Stock, at a purchase price per share of $____. This option is intended to be treated as an option which does [not] qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Restrictions on Exercisability. Except as specifically provided otherwise herein, the option will become exercisable in accordance with the following schedule based upon the period of the Optionee's continuous employment or service with the Company or a subsidiary thereof following the date hereof:

Period of Continuous Employment/ Service	Incremental Percentage of Option Exercisable	Cumulative Percentage of Option Exercisable
[Less than 1 year	0%	0%
1 year	20%	20%
2 years	20%	40%
3 years	20%	60%
4 years	20%	80%
5 or more years	20%	100%]

No shares of Common Stock may be purchased hereunder unless the Optionee shall have remained in the continuous employ or service of the Company or a subsidiary thereof for at least one year from the date hereof. If the Optionee performs services for the Company or a subsidiary thereof in a capacity other than as a director or employee, then, for purposes hereof, those services will be deemed to be continuous until they are terminated, and they will be deemed to be terminated at the time provided therefor in the consulting or other agreement governing the performance of such services or, if there is no such agreement, at the time the Company or such subsidiary notifies the Optionee that it no longer contemplates the utilization of such services. Unless sooner terminated, the option will expire if and to the extent it is not exercised within ten years from the date hereof.

3. Exercise. The option may be exercised in whole or in part in accordance with the above schedule by delivering to the Secretary of the Company (a) a written notice specifying the number of shares to be purchased, and (b) payment in full of the exercise price, together with the amount, if any, deemed necessary by the Company to enable it to satisfy any income tax withholding obligations with respect to the exercise (unless other arrangements acceptable to the Company are made for the satisfaction of such withholding obligations). The exercise price shall be payable in cash or by bank or certified check. The Company may (in its sole and absolute discretion) permit all or part of the exercise price to be paid with previously-owned shares of Common Stock, or in installments (together with interest) evidenced by the Optionee's secured promissory note.

4. Rights as Stockholder. No shares of Common Stock shall be sold or delivered hereunder until full payment for such shares has been made (or, to the extent payable in installments, provided for). The Optionee shall have no rights as a stockholder with respect to any shares covered by the option until a stock certificate for such shares is issued to the Optionee. Except as otherwise provided herein, no adjustment shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

5. Nontransferability. The option is not assignable or transferable except upon the Optionee's death to a beneficiary designated by the Optionee or, if no designated beneficiary shall survive the Optionee, pursuant to the Optionee's will and/or the laws of descent and distribution. During an Optionee's lifetime, the option may be exercised only by the Optionee or the Optionee's guardian or legal representative.

6. Termination of Service, Disability or Death. If the Optionee ceases to be employed by or to perform services for the Company and any subsidiary thereof for any reason other than death or disability (as defined below), then, unless sooner terminated under the terms hereof, the option will terminate on the date three months after the date of the Optionee's termination of employment or service. If the Optionee's employment or service is terminated

by reason of the Optionee's death or disability (or if the Optionee's employment or service is terminated by reason of disability and the Optionee dies within one year after such termination of employment

or service), then, unless sooner terminated under the terms hereof, the option will terminate on the date one year after the date of such termination of employment or service (or one year after the Optionee's later death). For purposes hereof, the term "disability" means the inability of Optionee to perform the customary duties of Optionee's employment or other service for the Company or a subsidiary thereof by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

7. Securities Laws Compliance Required. Notwithstanding anything herein to the contrary, if the shares of Common Stock issuable upon exercise of options granted under the Plan have not been registered under the Securities Act of 1933, as amended, the committee appointed by the Board of Directors to administer the Plan may condition the exercisability of the option upon compliance with applicable federal and state securities laws.

8. Change in Control; Capital Changes.

(a) If any event constituting a "Change in Control of the Company" shall occur, the options shall, unless sooner terminated under the terms hereof, immediately become exercisable. A "Change in Control of the Company" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(b) If at any time within two years after any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company and either (1) the Company terminates the optionee's employment other than for "Cause" or (2) the optionee leaves the employ of the Company for "Good Reason", then all outstanding options held by such optionee shall become fully exercisable whether or not the exercisability conditions set forth in Section 2 hereof have been satisfied, and the Optionee shall have the right to exercise this option prior to such change of control and for as long thereafter as the option shall remain in effect in accordance with its

terms and the provisions hereof and the Plan. For purposes hereof, "Cause" shall mean any or all of the following: (i) the Optionee materially fails to perform his duties; (ii) the Optionee materially breaches his obligation not to disclose confidential information of the Company; (iii) the Optionee materially breaches any non-competition covenant the Optionee may be subject to; (iv) the Optionee is convicted of any felony; (v) the Optionee commits theft, larceny or embezzlement of the Company's tangible or intangible property; or (vi) the Optionee's employment is terminated for cause under any employment agreement he has with the Company or any subsidiary of the Company. For purposes hereof, "Good Reason" shall mean any one or more of the following: (i) a material diminution of the Optionee's responsibilities, title, authority or status; (ii) a reduction in salary or material reduction in benefits (other than a reduction in salary permitted by any employment agreement to which the Optionee is a party); or (iii) the occurrence of any event which would constitute good reason under any employment agreement the Optionee has with the Company or any subsidiary of the Company.

(b) In the event of any stock split, stock dividend or similar transaction which increases or decreases the number of outstanding shares of Common Stock, appropriate adjustment shall be made by the Board of Directors of the Company to the number and option exercise price per share of Common Stock which may be purchased under the option. In the case of a merger, consolidation or similar transaction which results in a replacement of the Company's Common Stock with stock of another corporation but does not constitute a Change in Control of the Company, the Company will make a reasonable effort, but shall not be required, to replace the option granted hereunder with comparable options to purchase the stock of such other corporation, or will provide for immediate exercisability of the option, with the option being terminated if not exercised within the time period specified by the Board of

Directors of the Company.

(c) In the event of any adjustment in the number of shares covered by any option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded and each such option will cover only the number of full shares resulting from the adjustment.

(d) All adjustments under this Section 8 shall be made by the Board of Directors of the Company, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

9. No Employment Rights. Nothing in this agreement shall give the Optionee any right to continue in the employ or service of the Company or a subsidiary thereof, or interfere in any way with the right of the Company or a subsidiary thereof to terminate the employment or service of the Optionee.

10. Provisions of Plan. The provisions of the Plan shall govern if and to the extent that there are inconsistencies between those provisions and the provisions hereof. The Optionee acknowledges receipt of a copy of the Plan prior to the execution of this agreement.

11. Administration. The committee appointed by the Board of Directors of the Company to administer the Plan will have full power and authority to interpret and apply the provisions of this agreement and act on behalf of the Company in connection with this agreement, and the decision of said committee as to any matter arising under this agreement shall be binding and conclusive as to all persons.

12. Miscellaneous.

(a) This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(b) This agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be modified except by written instrument executed by the parties.

IN WITNESS WHEREOF, this agreement has been executed as of the

date first above written.

INTEGRATED LIVING COMMUNITIES, INC.

By: _____

_____
Optionee

INTEGRATED LIVING COMMUNITIES, INC.
NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

1. Purpose.

The purpose of this Non-Employee Director Stock Option Plan (the "Plan") of Integrated Living Communities, Inc. (the "Corporation") is to strengthen the Corporation's ability to attract and retain the services of knowledgeable and experienced persons who, through their efforts and expertise, can make a significant contribution to the success of the Corporation's business by serving as members of the Corporation's Board of Directors and to provide additional incentive for such directors to continue to work for the best interests of the Corporation and its stockholders through ownership of its Common Stock, $.01 par value (the "Common Stock"). Accordingly, the Corporation will compensate its non-employee directors through the annual grant of options to purchase shares of the Corporation's Common Stock on the terms and conditions hereafter established.

2. Stock Subject to Plan.

The Corporation may issue and sell a total of 75,000 shares of its Common Stock pursuant to the Plan. Such shares may be either authorized and unissued or held by the Corporation in its treasury. New options may be granted under the Plan with respect to shares of Common Stock which are covered by the unexercised portion of an option which has terminated or expired by its terms, by cancellation or otherwise.

3. Administration of the Plan.

The Plan shall be administered by the Board of Directors of the Corporation (the "Board"). The interpretation and construction by the Board of any provisions of the Plan or of any other matters related to the Plan shall be final. The Board may from time to time adopt such rules and regulations for carrying out the Plan as it may deem advisable. No member of the Board shall be liable for any action or determination made in good faith with respect to the Plan.

The Board of Directors may at any time amend, alter, suspend or terminate the Plan; provided, however, that any such action would not impair any option to purchase Common Stock theretofore granted under the Plan; and provided further that without the approval of the Corporation's stockholders, no amendments or alterations would be made which would (i) increase the number of shares of Common Stock that may be purchased by each non-employee director under the Plan (except as permitted by Paragraph 9), (ii) increase the aggregate number of shares of Common Stock as to which options may be granted under the Plan (except as permitted by Paragraph 9), (iii) decrease the option exercise price (except as permitted by Paragraph

9), or (iv) extend the period during which outstanding options granted under the Plan may be exercised; and provided further that Paragraph 5 of the Plan shall not be amended more than once every six months other than to comply with changes in the Internal Revenue Code of 1986, as amended, or the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

4. Eligibility.

All non-employee directors of the Corporation shall be eligible to receive options under the Plan. Receipt of stock options under any other stock option plan maintained by the Corporation or any subsidiary shall not, for that reason, preclude a director from receiving options under the Plan.

5. Grants.

(i) Each non-employee director shall be issued an option to purchase 7,500 shares of the Corporation's Common Stock (the "Option") on the date of each annual meeting of stockholders of the Corporation (each such date being a "Grant Date") held after the completion of the Corporation's initial public offering of Common Stock to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, if, immediately following such meeting, such person remains a director of the Corporation, at the following price for the following term and otherwise in accordance with the terms of the Plan:

(a) The option exercise price per share of Common Stock shall be the Fair Market Value (as defined below) of the Common Stock covered by such Option on the Grant Date.

(b) Except as provided herein, the term of an Option shall be for a period of ten (10) years from the Grant Date.

(ii) "Fair Market Value" shall mean, for each Grant Date, (A) if the Common Stock is listed or admitted to trading on the New York Stock Exchange (the "NYSE") or the American Stock Exchange (the "ASE"), the average of the high and low sale price of the Common Stock on such date or, if no sale takes place on such date, the average of the highest closing bid and lowest closing asked prices of the Common Stock on such exchange, in each case as officially reported on the NYSE or the ASE, or (B) if no shares of Common Stock are then listed or admitted to trading on the NYSE or the ASE, the average of the high and low sale prices of the Common Stock on such date on the Nasdaq National Market or, if no shares of Common Stock are then quoted on the Nasdaq National Market, the average of the closing bid and asked prices of the Common

Stock on such date on the NASDAQ Small Cap Market or, if no shares of Common Stock are then quoted on NASDAQ Small Cap Market, the average of the highest bid and lowest asked prices of the Common Stock on such date as

reported in the over-the-counter system. If no bid and asked prices thereof are then so quoted or published in the over-the-counter market, "Fair Market Value" shall mean the fair value per share of Common Stock (assuming for the purposes of this calculation the economic equivalence of all shares of classes of capital stock), as determined on a fully diluted basis in good faith by the Board, as of a date which is 15 days preceding such Grant Date.

(iii) Options granted hereunder shall not be "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

6. Regulatory Compliance and Listing.

The issuance or delivery of any Option may be postponed by the Corporation for such period as may be required to comply with the Federal securities laws, any applicable listing requirements of any applicable securities exchange and any other law or regulation applicable to the issuance or delivery of such Options, and the Corporation shall not be obligated to issue or deliver any Options if the issuance or delivery of such options would constitute a violation of any law or any regulation of any governmental authority or applicable securities exchange.

7. Restrictions on Exercisability.

(i) Except as provided in Section 7(ii) below, each Option granted under the Plan shall become exercisable as to 2,500 shares of Common Stock on the first anniversary of the Grant Date of such Option, as to an additional 2,500 shares of Common Stock on the second anniversary of the Grant Date of such Option and as to the remaining 2,500 shares of Common Stock on the third anniversary of the Grant Date of such Option.

(ii) If any event constituting a "Change in Control of the Corporation" shall occur, all Options granted under the Plan which are outstanding at the time a Change in Control of the Corporation shall occur shall immediately become exercisable in full. A "Change in Control of the Corporation" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the

Corporation's Common Stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation, or (ii) the stockholders of the Corporation shall approve any plan or proposal for liquidation or dissolution of the Corporation, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the

entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Corporation's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(iii) If at any time within two years after any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Corporation's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Corporation, the holder of an Option is removed as a director of the Corporation (other than for justifiable cause) or the Corporation does not renominate the holder for election as a director (other than for justifiable cause), then all Options of such holder granted under the Plan which are outstanding shall immediately become exercisable in full. For purposes hereof, justifiable cause shall mean any or all of the following: (i) the optionee materially fails to perform his duties as a director; (ii) the optionee is convicted of any felony; or (iii) the optionee commits theft, larceny or embezzlement of the Corporation's tangible or intangible property.

8. Cessation as Director.

In the event that the holder of an Option granted pursuant to the Plan shall cease to be a director of the Corporation for any reason such holder may exercise any portion of the Option that is exercisable by him at the time he ceases to be a director of the Corporation, but only to the extent such Option is exercisable as of such date, within six months after the date he ceases to be a director of the Corporation (one year if he ceases to be a director by reason of death or disability). For purposes hereof, the term "disability" means the inability of Optionee to perform the customary duties of a director by reason of a physical or mental incapacity which is expected to

result in death or be of indefinite duration.

9. Stock Splits, Mergers, etc.

In the event of any stock split, stock dividend or similar transaction which increases or decreases the number of outstanding shares of Common Stock, appropriate adjustment shall be made by the Board of Directors, whose determination shall be final, to the number and option exercise price per share of Common Stock which may be purchased under any outstanding Options. In the case of a merger, consolidation or similar transaction which results in a replacement of the Corporation's Common Stock with stock of another corporation but does not constitute a Change in Control of the Corporation, the Corporation will make a reasonable effort, but shall not be required, to replace any outstanding Options granted under the Plan with comparable options to purchase the stock of such other corporation, or will provide for immediate maturity of all outstanding Options, with all Options not being exercised within the time period specified by the Board of Directors being terminated.

10. Transferability.

Options are not assignable or transferable, except upon the optionholder's death to a beneficiary designated by the optionee in accordance with procedures established the Board or, if no designated beneficiary shall survive the optionholder, pursuant to the optionholder's will or by the laws of descent and distribution, to the extent set forth in Paragraph 8 and during the optionholder's lifetime, may be exercised only by him.

11. Exercise of Options.

An optionholder electing to exercise an Option shall give written notice to the Corporation of such election and of the number of shares of Common Stock that he has elected to acquire. An optionholder shall have no rights of a stockholder with respect to shares of Common Stock covered by his Option until after the date of issuance of a stock certificate to him upon partial or complete exercise of his option.

12. Payment.

The Option exercise price shall be payable in cash, check or in shares of Common Stock upon the exercise of the Option. If the shares of Common Stock are tendered as payment of the Option exercise price, the value of such shares shall be the Fair Market Value as of the date of exercise. If such tender would result in the issuance of fractional shares of Common Stock, the Corporation shall instead return the difference in cash or by check to the

employee.

13. Obligation to Exercise Option.

The granting of an Option shall impose no obligation on the director to exercise such option.

14. Continuance as Director.

Nothing in the Plan shall be deemed to create any obligation on the part of the Board to nominate any director for reelection by the Corporation's stockholders.

15. Term of Plan.

The Plan shall be effective on June 10, 1996, the date of its adoption by the Board and sole stockholder of the Corporation. The Plan will terminate on the date ten years after the date of adoption by the Board, unless sooner terminated by the

Board. The rights of optionees under options outstanding at the time of the termination of the Plan shall not be affected solely by reason of the termination and shall continue in accordance with the terms of the option (as then in effect or thereafter amended).

INTEGRATED LIVING COMMUNITIES, INC.
STOCK OPTION AGREEMENT

AGREEMENT made as of the _____ day of _____, ____, by and between Integrated Living Communities, Inc., a Delaware corporation (the "Company"), and _____ (the "Optionee").

W I T N E S S E T H

WHEREAS, pursuant to the Integrated Living Communities, Inc. Non- Employee Directors Stock Option Plan (the "Plan"), the Company desires to grant to the Optionee and the Optionee desires to accept an option to purchase shares of common stock, $.01 par value, of the Company (the "Common Stock") upon the terms and conditions set forth in this agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant. The Company hereby grants to the Optionee an option to purchase 7,500 shares of Common Stock at a purchase price per share of $_____. This option is intended to be treated as an option which does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Restrictions on Exercisability. Except as specifically provided otherwise herein, the option will become exercisable as to 2,500 shares on the first anniversary of the date hereof, as to an additional 2,500 shares on the second anniversary of the date hereof and as to the remaining 2,500 shares on the third anniversary of the date hereof. Unless sooner terminated, the option will expire if and to the extent it is not exercised within ten years from the date hereof.

3. Exercise. The option may be exercised in whole or in part in accordance with the above schedule by delivering to the Secretary of the Company (a) a written notice specifying the number of shares to be purchased, and (b) payment in full of the exercise price, together with the amount, if any, deemed necessary by the Company to enable it to satisfy any income tax withholding obligations with respect to the exercise (unless other arrangements acceptable to the Company are made for the satisfaction of such withholding obligations). The exercise price shall be payable in cash or by bank or certified check. The Company may (in its sole and absolute discretion) permit all or part of the exercise price to be paid with previously-owned shares of Common Stock, or in installments (together with interest) evidenced by the Optionee's secured promissory note.

4. Rights as Stockholder. No shares of Common Stock shall be sold or delivered hereunder until full payment for such shares has been made

(or, to the extent payable in installments, provided for). The Optionee shall have no rights as a stockholder with respect to any shares covered by the option until a stock certificate

for such shares is issued to the Optionee. Except as otherwise provided herein, no adjustment shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

5. Nontransferability. The option is not assignable or transferable except upon the Optionee's death to a beneficiary designated by the Optionee or, if no designated beneficiary shall survive the Optionee, pursuant to the Optionee's will and/or the laws of descent and distribution. During an Optionee's lifetime, the option may be exercised only by the Optionee or the Optionee's guardian or legal representative.

6. Termination of Service. If the Optionee ceases to be a non-employee director of the Company for any reason other than death or disability, then, unless sooner terminated under the terms hereof, the option will terminate on the date six months after the date of the Optionee's termination of service as a non-employee director. If the Optionee's service as a non-employee director is terminated by reason of the Optionee's death or disability, then, unless sooner terminated under the terms hereof, the option will terminate on the date one year after the date of death or disability, respectively. For purposes hereof, the term "disability" means the inability of Optionee to perform the customary duties of a director by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

7. Compliance With Securities Laws. Notwithstanding anything herein to the contrary, the option may not be exercised if in the opinion of counsel to the Company, such exercise and/or issuance would result in a violation of federal or state securities laws.

8. Acceleration of Exercisability; Capital Changes.

(a) If any event constituting a "Change in Control of the Company" shall occur, the option shall, unless sooner terminated under the terms hereof, immediately become exercisable. A "Change in Control of the Company" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common

stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's

stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(b) If, at any time within two years after any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Company's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company, the Optionee is removed as a director of the Company (other than for justifiable cause) or the Company does not renominate the Optionee for election as a director (other than for justifiable cause), then the option shall, unless sooner terminated under the terms hereof, become immediately exercisable in full. For purposes hereof, justifiable cause shall mean any or all of the following: (i) the Optionee materially fails to perform his duties as a director; (ii) the Optionee is convicted of any felony; or (iii) the Optionee commits theft, larceny or embezzlement of the Company's tangible or intangible property.

(c) In the event of any stock split, stock dividend or similar transaction which increases or decreases the number of outstanding shares of Common Stock, appropriate adjustment shall be made by the Board of Directors of the Company to the number and option exercise price per share of Common Stock which may be purchased under the option. In the case of a merger, consolidation or similar transaction which results in a replacement of the Company's Common Stock with stock of another corporation but does not constitute Change in Control of the Company, the Company will make a reasonable effort, but shall not be required, to replace the option granted hereunder with comparable options to purchase the stock of such other corporation, or will provide for immediate maturity of the option, with the option being terminated if not exercised within the time period specified by the Board of Directors of the Company.

(d) In the event of any adjustment in the number of shares covered by any option pursuant to the provisions hereof, any fractional shares resulting from such adjustment will be disregarded and each such option will cover only the number of full shares resulting from the adjustment.

(e) All adjustments under this Section 8 shall be made by the Board of Directors of the Company, and its determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive.

9. No Rights to Continue Service. Nothing in this agreement shall give the Optionee any right to continue in the service of the Company, or interfere in any way with the right of the Company to terminate the service of the Optionee.

10. Provisions of Plan. The provisions of the Plan shall govern if and to the extent that there are inconsistencies between those provisions and the provisions

hereof. The Optionee acknowledges receipt of a copy of the Plan prior to the execution of this agreement.

11. Administration. The Board of Directors of the Company will have full power and authority to interpret and apply the provisions of this agreement and act on behalf of the Company in connection with this agreement, and the decision of the Board of Directors of the Company as to any matter arising under this agreement shall be binding and conclusive as to all persons.

12. Miscellaneous.

(a) This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(b) This agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be modified except by written instrument executed by the parties.

IN WITNESS WHEREOF, this agreement has been executed as of the

date first above written.

INTEGRATED LIVING COMMUNITIES, INC.

By: _____

Optionee

INTEGRATED LIVING COMMUNITIES, INC.
STOCK OPTION AGREEMENT

AGREEMENT made as of the 10th day of June, 1996, by and between Integrated Living Communities, Inc., a Delaware corporation (the "Corporation"), and _____ (the "Optionee").

W I T N E S S E T H:

WHEREAS, the Corporation desires to grant to the Optionee, in order to obtain and retain the services of the Optionee as a director of the Corporation, and the Optionee desires to accept, an option to purchase shares of common stock, $.01 par value, of the Corporation (the "Common Stock") upon the terms and conditions set forth in this agreement.

NOW, THEREFORE, the parties hereto agree as follows:

(1) Grant. The Corporation hereby grants to the Optionee, subject to approval by the stockholders of the Corporation, an option to purchase _____ shares of Common Stock, at a purchase price per share equal to the initial public offering price per share of the Common Stock pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Initial Public Offering"). This option is intended to be treated as an option which does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

(2) Restrictions on Exercisability. Except as specifically provided otherwise herein, the option will become exercisable as to _____1/ on shares on June 10, 1997, as to an additional _____1/ shares on June 10, 1998 and as to the remaining _____1/ shares on June 10, 1999; provided, however, that this option shall not be exercisable unless and until the closing of the Initial Public Offering occurs. Unless sooner terminated, the option will expire if and to the extent it is not exercised within ten years from the date hereof.

(3) Exercise. The option may be exercised in whole or in part in accordance with the above schedule by delivering to the Secretary of the Corporation (a) a written notice specifying the number of shares to be purchased, and (b) payment

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1/ that number of shares equal to one-third of the total number of shares granted.

in full of the exercise price, together with the amount, if any, deemed necessary by the Corporation to enable it to satisfy any income tax withholding obligations with respect to the exercise (unless other arrangements acceptable to the Corporation are made for the satisfaction of such withholding obligations). The exercise price shall be payable in cash or by bank or certified check. The Corporation may (in its sole and absolute discretion) permit all or part of the exercise price to be paid with previously-owned shares of Common Stock, or in installments (together with interest) evidenced by the Optionee's secured promissory note.

(4) Rights as Stockholder. No shares of Common Stock shall be sold or delivered hereunder until full payment for such shares has been made (or, to the extent payable in installments, provided for). The Optionee shall have no rights as a stockholder with respect to any shares covered by the option until a stock certificate for such shares is issued to the Optionee. Except as otherwise provided herein, no adjustment shall be made for dividends or distributions of other rights for which the record date is prior to the date such stock certificate is issued.

(5) Nontransferability. The option is not assignable or transferable except upon the Optionee's death to a beneficiary designated by the Optionee or by the Optionee's will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code. During an Optionee's lifetime, the option may be exercised only by the Optionee or the Optionee's guardian or legal representative.

(6) Termination of Service. If the Optionee ceases to be a director of the Corporation for any reason other than death or disability, then, unless sooner terminated under the terms hereof, the option will terminate on the date six months after the date of the Optionee's termination of service as a director. If the Optionee's service as a director is terminated by reason of the Optionee's death or disability, then, unless sooner terminated under the terms hereof, the option will terminate on the date one year after the date of death or disability, respectively. For purposes hereof, the term "disability" means the inability of Optionee to perform the customary duties of a director by reason of a physical or mental incapacity which is expected to result in death or be of indefinite duration.

(7) Compliance With Securities Laws. Notwithstanding anything herein to the contrary, the option may not be exercised if in the opinion of counsel to the Corporation, such exercise and/or issuance would result in a violation of federal or state securities laws.

(8) Acceleration of Exercisability; Capital Changes.

(A) If any event constituting a "Change in Control of the Corporation" shall occur, the option shall, unless sooner terminated under the terms hereof, immediately become exercisable in full. A "Change in Control of the Corporation" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of the Corporation's Common Stock would be converted into cash, securities or other property, other than a merger of the Corporation in which the holders of the Corporation's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation, or (ii) the stockholders of the Corporation shall approve any plan or proposal for liquidation or dissolution of the Corporation, or (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Corporation shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Corporation's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(B) If, at any time within two years after any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% or more of the Corporation's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Corporation, the Optionee is removed as a director of the Corporation (other than for justifiable cause) or the Corporation does not renominate the Optionee for election as a director (other than for justifiable cause), then the option shall, unless sooner terminated under the terms hereof, become immediately exercisable in full. For purposes hereof, justifiable cause shall mean any or all of the following: (i) the Optionee materially fails to perform his duties as a director; (ii) the Optionee is convicted of any felony; or (iii) the Optionee commits theft, larceny or embezzlement of the Corporation's tangible or intangible property.

(C) If the Optionee dies or suffers a disability (as defined in Section 6 hereof), the option shall, unless sooner terminated under the terms hereof, immediately become exercisable in full.

(D) In the event of any stock split, stock dividend or similar transaction which increases or decreases the number of outstanding shares of Common Stock, the number of shares and option exercise price per share of Common Stock which may be purchased under this option each shall be adjusted automatically to the nearest whole share (disregarding any fractional shares) and nearest whole cent to reflect such transaction. In the case of a merger, consolidation or similar transaction

which results in a replacement of the Corporation's Common Stock with stock of another corporation but does not constitute a Change in Control of the Corporation, the Corporation will make a reasonable effort, but shall not be required, to replace this option, to the extent then outstanding, with comparable options to purchase the stock of such other corporation, or will provide for immediate exercisability in full of this option, with which, to the extent not exercised within the time period specified by the Board of Directors, will thereafter terminate.

(9) No Rights to Continue Service. Nothing in this agreement shall give the Optionee any right to continue in the service of the Corporation, or interfere in any way with the right of the Corporation to terminate the service of the Optionee.

(10) Miscellaneous.

(a) This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(b) This agreement shall be governed by and construed in accordance with the laws of the State of Delaware. This agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and may not be modified except by written instrument executed by the parties.

IN WITNESS WHEREOF, this agreement has been executed as of the date first above written.

INTEGRATED LIVING COMMUNITIES, INC.

By: _____

_____

DEVELOPMENT SERVICES AGREEMENT

THIS DEVELOPMENT SERVICES AGREEMENT (this "Agreement") is made and entered into as of (although not necessarily on) June 3, 1996 by and among INTEGRATED LIVING COMMUNITIES, INC. a Delaware corporation ("Company"), INTEGRATED HEALTH SERVICES, INC., a Delaware corporation ("IHS"), which is a party to this Agreement for the purposes and to the extent set forth in Section 7.D. of this Agreement, and AGUIRRE, INC., a Texas corporation ("Developer").

Preliminary Statement

A. Company desires to investigate and review such various factors as Company, in its sole discretion, may deem necessary and appropriate pertaining to the desirability and feasibility of entering into "build to suit" leases pursuant to which Company would become the tenant, occupant and operator of certain assisted living housing facilities to be constructed on the hereinafter referred to Sites (collectively, the "Projects") designed with the assistance of Developer in consultation with Company and/or Company's advisers so as to address Company's needs and requirements (to meet minimum licensure requirements for personal care facilities), such facilities to be acquired by and leased to Company by Developer or an approved designee of Developer;

B. Developer has counseled and shall continue to counsel and advise Company in respect of the investigation and selection of sites, the review and evaluation of the various engineering, architectural, design, construction, and other pertinent issues that arise in connection with the site acquisition, and the development and construction of the Projects, and Developer has provided and shall continue to provide Company with the benefit of Developer's expertise and capacity to provide architectural, engineering, construction management and other professional personnel and/or consultants whose expertise is utilized in connection with such development activities, and Developer has incurred and shall continue to incur a variety of costs and expenses in connection with the rendition of such services;

C. Company desires to retain Developer to provide certain services to Company in order to advise and assist Company in its investigation and review of matters pertaining to the acquisition of the Sites and development and construction of the contemplated Projects, and for the benefit of Company, Developer may as hereinafter provided review and pursue the various forms of financing arrangements and transactions which could be utilized in connection with such contemplated development so as to devise appropriate financing arrangements and transactions pursuant to which the Sites can be acquired and the Projects constructed and leased to Company;

D. Company envisions that Company shall make a public offering and sale of securities (the "Offering") on or around September 1, 1996 (the date on which the Company's initial public offering is declared effective by the Securities and Exchange Commission being hereinafter referred to as the "Offering Date");

E. Company desires to negotiate with Developer in regard to the possibility of entering into a "build to suit" lease agreement with Developer or its approved designee pursuant to which Developer or its approved designee would acquire the land for each Project and would develop and construct each Project, which would thereupon be leased to and occupied by Company (the entity acquiring a Project, which shall be Developer or a designee approved by Company as hereinafter provided, being hereinafter sometimes referred to as an "Owner");

F. Developer and Company desire to set forth their mutual agreements in regard to the services which Developer shall from time to time provide to Company, the procedures to be followed by Developer and Company in connection with the submittal by Developer to Company and Company's review and response to information, studies, and other data pertaining to the acquisition and development of sites for the Projects and the various matters pertaining thereto;

G. In recognition of the fact that Company shall have no obligation to enter into the contemplated Leases (as hereinafter defined) and the fact that at Company's behest Developer has furnished and shall hereinafter furnish valuable services, devote extensive resources to designing the Prototypes (as hereinafter defined), to conducting the preliminary "due diligence" activities to be conducted by Developer as hereinafter provided and to develop a proposed form of Lease to be submitted by Company for Developer's review and input as hereinafter provided, and in recognition of the fact that (i) in connection with the foregoing described services and activities, Developer has foregone and is likely to forego the opportunity to participate in other business opportunities due to the time and effort anticipated to be devoted by Developer's staff in connection with this Agreement and the transactions contemplated herein; provided, however, that Developer shall not be entitled to recover any compensation not provided for in this Agreement by virtue of having foregone any such opportunities) and (ii) Developer shall from time to time incur various costs and expenses, including without limitation interest on funds borrowed by Developer to pay for such costs and expenses and to fund labor and overhead necessary in the performance of Developer's responsibilities under this Agreement (it being acknowledged that Developer intends to borrow funds to enable Developer to fund labor, overhead and other costs and expenses which shall be incurred by Developer in connection with Developer's performance of its responsibilities hereunder and attempts to consummate the transactions contemplated herein), Company and Developer wish to provide for the reimbursement to Developer of Approved Costs (as hereinafter defined) incurred

by Developer and for the payment to Developer of a fee for Developer's services in connection with the investigation, review and analysis of the various matters which Developer shall address in performing Developer's responsibilities hereunder; and IHS, which is affiliated with Company and wishes to induce

Developer to enter into this Agreement with Company and recognizes that Developer will incur substantial costs and expenses (and will likely incur material indebtedness in order to fund such costs and expenses) in connection with this Agreement, desires to guaranty certain obligations of Company to Developer in the manner and to the extent provided in Section 7.D. of this Agreement; and

H. It is contemplated that in addition to the services to be rendered hereunder, the parties shall hereinafter endeavor to negotiate a further agreement (the "National Agreement") pursuant to which Developer or its affiliate shall assist Company in managing the development of projects other than the Projects and performing Project maintenance and physical plant management services in connection with such projects; provided, however, that no party shall be under any obligation to enter into any such National Agreement and the failure of any such National Agreement to be consummated shall not affect or in any way impair the parties' respective obligations under this Agreement.

NOW, THEREFORE, for and in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company and Developer hereby agree as follows:

1. Appointment of Developer. Company appoints and authorizes Developer as an independent contractor to perform on behalf of Company such site investigation and development evaluation activities as directed by Company in its sole discretion as it relates to the evaluation of the desirability, feasibility, and cost of developing the Projects upon the various sites from time to time considered by Company for the location of the Projects. Developer agrees to perform such services on Company's behalf and for Company's account, as an independent contractor, subject to and upon the terms and conditions of this Agreement, and in connection therewith to engage and coordinate the efforts of such professionals as Developer reasonably determines to be experienced, reputable and appropriate for the performance of the various responsibilities to be undertaken pursuant to this Agreement including such personnel and/or consultants as engineers, architects, designers, landscape architects, soils consultants, construction contractors, environmental (with the environmental consultant(s) engaged by Developer to be satisfactory to Company), traffic, legal and other professional consultants for the investigation, evaluation,

financing, design, and construction of the Projects.

2. Site Identification and Purchase Activities.

A. The Projects will be constructed upon the sites (collectively, the "Sites") identified on Exhibit A attached hereto and any additional sites designated by Developer and Company pursuant to a written agreement to such effect executed by and between Developer and Company.

B. Developer shall assist Company in conducting and coordinating site purchase

contract negotiations with the various owners of the respective Sites and other additional potential sites designated by Developer and Company pursuant to a written agreement to such effect executed by and between Developer and Company, and, in connection therewith, coordinate the activities of architects, engineers, contractors, and other consultants for the purpose of analyzing and reviewing the Site locations and such potential additional site locations and development alternatives so as to facilitate the planning and development of the Projects.

C. Company and Developer acknowledge that it is essential that they cooperate together in structuring arrangements for the acquisition of the Sites so as to render them readily financeable and thus enable Company (or, subject to Section 4 below, Developer) to secure financing for the acquisition of the Sites and the construction and development of the Projects thereon. Accordingly, Company shall forthwith provide Developer with a complete copy of any contract to acquire a Site for any Project from time to time entered into by Company (each, a "Contract"), and any such Contract shall be assignable to Developer or its approved designee at such time, if ever, as a Lease with respect to such Project is entered into by Developer or such designee with Company or its affiliate, as tenant.

D. Company shall remit to the title company or other escrow agent the amount of any "earnest money" or "option fee" or other form of deposit or initial contract consideration or escrow payment required to be made pursuant to each Contract but Company's failure to do so shall not constitute a default hereunder. Company shall immediately furnish to Developer a true and correct copy of any amendment to or modification of any Contract from time to time entered into by Company.

E. It is anticipated that the date of closing for the acquisition of all of the Sites shall occur on or before September 15, 1996 (the "Acquisition and Financing Closing Date") unless Company and Developer agree otherwise in

writing. Notwithstanding the foregoing or anything else to the contrary contained in this Agreement, it is understood and agreed that the closing for the acquisition of any Site shall be subject to the prior or simultaneous unconditional execution of the Lease for such Project, the closing of the Construction and Acquisition Financing for such Project and the satisfaction of the conditions to closing under the Contract for such Project, the conditions to effectiveness, if any, under such Lease and the conditions to the initial funding under such Construction and Acquisition Financing. It is further understood and agreed that except for payment of its Termination Development Fee pursuant to Section 7 below and reimbursement of all Approved Costs incurred by Developer (and, if applicable, payment of any sums from time to time due to Developer pursuant to Section 4 and/or Section 7 and/or Section 9 of this Agreement, as the case may be), Company shall have no liability to Developer and Developer shall have no liability to Company in the event that a contract for any Site is not entered into or in the event that a Contract for any Site does not close, for any reason whatsoever, including without limitation, Company's or its affiliate's or Developer's or its designee's failure or refusal to close.

3. Acquisition Due Diligence Activities.

A. Upon Company or its affiliate entering into a Contract, or if request by Company prior to Company's or its affiliate entering into a Contract, to the extent that the same has not been previously performed, Developer shall conduct or arrange for the performance by Developer or, at Developer's election, experienced, reputable and appropriate professionals engaged by Developer (and in the case of any environmental consultants, approved by Company, of such tests and reviews as Developer determines to be necessary or desirable (as well as such tests and reviews, if any, as Company reasonably requests), including without limitation studies and analysis relating to title and survey, zoning, required permits and/or licenses, access (including ingress and egress), utilities, environmental matters, drainage, civil and geotechnical engineering matters, soils conditions, water rights, site improvement cost estimates, Project tax burdens, and matters anticipated to affect the timing and feasibility of construction and development activities. Developer shall coordinate with Company to refine conceptual planning of the Projects, finalize the schematic designs of the relevant portions thereof, and, following the execution and delivery of the Leases, Developer shall prepare preliminary design development documents and thereupon prepare and submit requests for proposals and bid materials to potential contractors and vendors in accordance with the respective Leases. Based upon such reviews and responses to requests for proposals and bid solicitations and Developer's analysis thereof, Developer shall prepare and submit for Company's review a preliminary budget of construction and development costs and a preliminary schedule for various material phases and activities in connection with the contemplated construction and development of the Project. Ultimately, following the execution and delivery

of a Lease and the financing documents for the Project subject thereto, Developer or the other applicable Owner shall enter into a construction contract (which shall provide for the establishment of a payment and performance bond covering the work subject thereto) with a general contractor whose performance shall be reviewed by Developer in its capacity as the construction management coordinator (pursuant to a construction management services agreement generally in the form of promulgated by the American Institute of Architects ["AIA"]) whose scope of work shall be consistent with the scope of work to be performed by a general construction manager utilizing AIA guidelines and practices.

B. In the event that a Contract or a Lease is never executed for a Site or if the acquisition of title under a Contract does not close, following Developer's receipt of full payment of all sums due to Developer under this Agreement, Developer shall upon request of Company promptly deliver to Company all reports, studies, records, files, books and accounts with respect to such Site and/or the Project to be built thereon then in Developer's possession (provided, that Developer may retain copies thereof for its own internal use and shall not be required to provide any internal working papers or documents intended for the use of or distribution to Developer's staff); it being understood that the same were prepared or obtained by Developer for Company's benefit and account and at Company's expense and accordingly, that following Developer's receipt of full payment of all sums due to Developer under this Agreement, Company shall be entitled to receive the same upon request or upon termination of this Agreement.

4. Financing Arrangements.

A. Following the selection of the Site for each Project and the refinement of Developer's and Company's review and analysis of the anticipated cost of acquiring the Site and constructing the Project thereon, and the finalization of design, preliminary budgets, etc., Developer and Company may each negotiate with and solicit quotations and offers for financing from various institutional sources of financing ("Financial Institutions") such as investment banking firms, life insurance companies, venture capital companies and such other potential sources of funding for real estate investment as Developer or Company may deem appropriate, provided that before Developer contacts any Financial Institution it shall have registered in writing with Company the name of any such Financial Institution that Developer desires to contact with regard to any of the Projects and shall have secured Company's written consent to Developer's contacting such Financial Institution (such registered and consented to Financial Institutions being hereinafter referred to individually as a "Registered Financial Institution" and collectively as "Registered Financial Institutions"). In connection therewith, Company agrees to promptly provide or

cause to be provided to Developer such information and data as Developer may reasonably request in order to provide Developer with sufficient detailed information to provide to a Registered Financial Institution and Developer agrees to promptly provide or cause to be provided to Company such information and data as Company may reasonably request in order to provide Company with sufficient detailed information to provide to a Financial Institution. Developer shall furnish Company with a copy of any proposed information package contemplated to be provided to a Registered Financial Institution prior to the submittal thereof, and Company shall endeavor to promptly review the matters contained therein and advise Developer in writing of any respect in which such information package or any matters contained therein may be inaccurate or misleading and shall furnish any information reasonably necessary or appropriate to cure any defect therein. Developer shall cause any Registered Financial Institution to which it submits any such information package to agree to maintain the confidentiality of the proprietary information furnished in connection therewith, subject to the ability of such Financial Institution to divulge such information to its accountants, legal counsel, and other consultants.

B. It is understood that Company, as well as Developer, is soliciting financing commitments and that Developer shall not contact or negotiate with any Financial Insitution that is not a Registered Financial Institution. Furthermore, in order to coordinate all efforts to solicit and obtain financing, it is essential that Developer only contact, and Developer agrees to only contact, Registered Financial Institutions. Developer shall deliver to Company a copy of any offer or commitment for financing obtained by Developer from any Registered Financial Institution. In the event that Company or any affiliate thereof does not enter into a Lease for a particular Project with Developer or an approved designee of Developer, but within one year from the Acquisition and Financing Closing Date or within one year from the date on which Developer delivered a copy of any offer or commitment to Company from a Registered Financial Institution for the financing of such Project or has most recently conducted negotiations with such Financial Institution, whichever shall later occur, as the

case may be, Company enters into a commitment or transaction with such Registered Financial Institution for the financing of such Project, then in such case, in addition to any otherpayment which may be due to Developer hereunder, Company shall pay to Developer upon the closing and initial funding of the loan under such commitment an advisory fee (the "Financing Advisory Fee") in the amount of one percent (1.0%) of the aggregate sum of the maximum amount of all funds advanced or funded or committed by such Registered Financial Institution to be advanced or funded for the financing of such Project.

C. As employed herein the term "financing" shall mean and refer to all sources of funding of any and every nature and kind including, without limitation, equity investments (whether direct or in the form of proceeds from the issuance and sale of securities) and direct and indirect forms of credit enhancement (e.g., the issuance of letters of credit) as well as the making of a loan. Company agrees to provide Developer with a copy of any offer or commitment for financing of any Project and any documents or instruments executed by Company and/or any affiliate thereof in connection therewith. The obligations of Company under this Section 4 shall survive the termination or expiration of this Agreement for a period of one year.

D. Company shall be responsible for the payment of any commitment fee which may be due in respect of any financing in regard to any Project, which amount shall be credited against the rental which would otherwise be due and payable under the Lease to be entered into in respect of such Project.

E. As noted above, Company reserves the right to independently seek to obtain financing for any of the Projects from sources identified by Company. If Company desires Developer to assist Company in securing and coordinating such financing, Company and Developer shall enter into a mutually satisfactory consulting agreement pursuant to which Developer shall render such services for an agreed upon financing advisory fee.

5. Presentation of Lease.

A. Following or concurrently with the execution and delivery of a Contract for a Site and the refinement of Developer's and Company's review and analysis of the anticipated cost of acquiring the Site and constructing the Project thereon, Company and Developer shall seek to negotiate a mutually satisfactory "build to suit" lease agreement (a "Lease") for such Project. Upon execution of the Lease for such Site, Company will assign its rights under the Contract for such Site to Developer or to a designee approved by Company (herein referred to as an "approved designee"), it being agreed that any wholly owned subsidiary of Developer is hereby approved by Company and shall for all purposes be deemed to be an approved Designee and in respect of any other contemplated designee Company's approval thereof shall not be unreasonably withheld or delayed provided that in no event shall such designee be an Operator (as hereinafter defined in Section 16), and such Owner will acquire the Site for the Project and Developer (and such Owner if other than Developer) shall develop and construct the Project in accordance with the Lease [or a separate development

and construction agreement for such Project], which would thereupon be occupied and operated by Company or its affiliate, as tenant under such Lease. In this

regard, Developer and Company shall endeavor as soon as possible to enter into an agreement approving a standard base lease form to serve as the model for each respective Lease to be entered into for each Project, subject to the modification of such lease form to address economic issues or matters particular to the Project or lease transaction in question.

B. Company and Developer shall use reasonable efforts to negotiate and enter into the Leases for each Project on or before the Acquisition and Financing Closing Date; provided, however, that neither Company or its affiliate nor Developer or its designee shall have any obligation to enter into any Lease and either Company or its affiliate or Developer or its designee may decline to do so for any reason that either such party may in its sole and absolute discretion deem appropriate. In the event that Company or its affiliate and Developer or its designee execute and deliver a Lease for a Project on or before the date set forth in Section 7 below, then in such case no Termination Development Fee with respect to such Project shall be payable pursuant to Section 7 below.

C. Although the terms of the respective Leases shall be subject to negotiation and shall be mutually satisfactory to each of the parties in its sole discretion, it is contemplated that the following matters shall be reflected therein:

(1) All sums advanced by Company pursuant to this Agreement through the Acquisition and Financing Closing Date shall be applied in reduction of the amount of rental that would otherwise be payable pursuant to the Leases;

(2) The base and renewal rental shall be determined on a basis that is mutually satisfactory to the parties;

(3) The initial term of each Lease shall be no less than ten (10) years, with the tenant to be granted four five year renewal options;

(4) The Lease shall be a "triple net" lease, with the tenant responsible for the payment of all costs and expenses (including, without limitation, taxes, insurance, and maintenance expenses) in connection with the Site and the Project in question; and

(5) The Lease may not be assigned by the tenant, nor may the tenant sublet the premises, except for a subletting to an affiliate or an assignment to an equally creditworthy and responsible successor tenant in connection with a merger, consolidation or sale of all or substantially all of tenant's assets, without the prior written consent of the landlord, which shall not be unreasonably withheld, delayed or conditioned, and the prior approval of the landlord's mortgagee, and may not be assigned by the landlord without the consent of the tenant if the proposed assignee is an Operator

(as hereinafter defined) but shall

otherwise be freely assignable by the landlord. The landlord under the Lease shall not be an Operator at any time during the term thereof. The Lease shall be made subjectand subordinate to any first fee mortgage or deed of trust on the Project held by a Financial Institution, provided that such Financial Institution enters into a recognition, nondisturbance, subordination and attornment agreement between tenant and such Financial Institution in form and substance mutually satisfactory to such parties;

(6) Each respective Lease shall provide for Developer or a designee that is a wholly owned subsidiary of Developer to enter into a written agreement to provide architectural, construction management, furniture, fixture and equipment procurement, and Project maintenance and physical plant management services (at prevailing market rates of compensation) in respect of the applicable Project in question; and

(7) Each Lease shall contain a right of first refusal in favor of the tenant and shall also grant to tenant an option to purchase the Site and the Project on a basis that is mutually satisfactory to the parties.

6. Reimbursement of Expenses.

A. Attached hereto as Exhibit B for the purposes of illustration is a spreadsheet prepared by Developer to illustrate Developer's calculation of various anticipated costs and expenses to be reimbursed to Developer pursuant to this Agreement. Exhibit B is furnished for the purposes of illustration only, it being acknowledged that the nature and extent of the Approved Costs (as hereinafter defined) to be incurred is not yet readily ascertainable and has not yet been determined. Developer has incurred Approved Costs (as defined below) through the end of May, 1996 in an amount equal to approximately Four Hundred Thousand Dollars ($400,000.00), and Developer has heretofore received partial reimbursement for such Approved Costs in the amount of Two Hundred Thousand Dollars ($200,000.00) from Company. Company hereby agrees to pay Developer the additional sum of Two Hundred Thousand Dollars ($200,000.00) immediately following the date of Company's and Developer's execution and delivery of this Agreement to reimburse Developer for additional Approved Costs incurred by Developer. On or before September 10, 1996, Developer shall submit to Company a request for payment (the "First Draw Request") which shall contain an itemized specification of the amount of all then unreimbursed Approved Costs previously incurred by Developer in the performance of Developer's responsibilities under

this Agreement (the "Reimbursable Costs"). Company shall pay to Developer the amount of the Reimbursable Costs covered by such Draw Request within ten (10) days from the delivery to Company thereof or by September 20, 1996, whichever shall occur later. In the event that the execution of the Leases, the acquisitions of the Sites, and the closing and initial funding of the Acquisition and Construction Financing do not occur on or before October 31, 1996, then in such case Developer shall submit to Company a request for payment (the "Final Draw Request")

which shall contain an itemized specification of the amount of all then unreimbursed Approved Costs incurred by Developer in the performance of Developer's responsibilities under this Agreement (the "Final Draw"). Such Final Draw shall be due and payable within ten (10) days from the delivery to Company thereof. Upon the full payment of the sums due hereunder, this Agreement shall terminate unless Company and Developer otherwise agree in writing. Developer shall provide Company with a semimonthly report of the amount of costs and expenses incurred by Developer and shall permit Company to inspect Developer's books and records in respect of Approved Costs for which Developer was reimbursed at any reasonable time within one year from the date of the payment of the Final Draw. In recognition of the fact that Developer is incurring substantial costs and expenses in connection with this Agreement and the transactions contemplated herein (and will be obtaining financing in respect thereof), Company shall promptly pay to Developer the full amount of the First Draw Request and the Final Draw Request and any other sum due pursuant to this Section 6 without offset or deduction or set off of any kind and notwithstanding any dispute which may arise in regard to any item which may be included within any such draw request, but in the event that any audit performed by Company reveals that Company has made an overpayment to Developer, Developer shall forthwith refund the amount of any such overpayment. Notwithstanding any term or provision of this Agreement to the contrary, in the event that Company fails to make any payment to Developer when due under this Section 6, then in addition to any other right or remedy enjoyed by Developer, from and after such time until such time as Developer has received payment in full, Developer may suspend performance of any or all of its duties and obligations under this Agreement and in such case Developer shall not be liable nor responsible in any way for any damage or injury or loss arising from or in any way related to Developer's failure to perform any such duties or obligations.

B. As used herein, "Approved Costs" means all costs or expenses (the aggregate amount of which shall not exceed the Maximum Approved Sum (as hereinafter defined) unless otherwise approved in writing by Company) incurred by Developer in connection with the performance by Developer of its responsibilities under this Agreement and in respect of the transactions contemplated herein including, without limitation of the generality of the foregoing, the direct labor, overhead, and out of pocket costs and expenses

attributable thereto, as well as all third party environmental, engineering, or other consultants or professionals engaged by Developer and any interest costs incurred by Developer on funds borrowed by Developer from any bank to fund costs and expenses incurred by Developer in connection with this Agreement and the transactions contemplated hereby, it being understood that Approved Costs shall specifically include all such costs and expenses incurred in respect of the review and evaluation of any potential additional sites pursuant to Section 2.B. hereof. For the purposes hereof, the Maximum Approved Sum shall mean the total amount for the various line items and their costs as shown on Exhibit B and shall be an amount equal to the greater of (i) the total sum shown on Exhibit B or (ii) such other greater amount, if any, as is hereafter approved in writing by Company. If Developer anticipates that Approved Costs may be incurred by Developer in connection with the performance by Developer of its responsibilities under this Agreement in excess of the Maximum Approved

Sum, Developer may request approval of an increase in the Maximum Approved Sum in writing and if Company approves such increase of the Maximum Approved Sum in writing, then such increased Maximum Approved Sum so expressly approved by Company shall also constitute the Maximum Approved Sum under this Agreement for Approved Costs for which Developer may request reimbursement as provided in Paragraph A above. In the event that Company does not approve Developer's request for any increase in the Maximum Approved Sum, then in such case, notwithstanding any term or provision of this Agreement to the contrary, Developer shall not be required to incur any costs or expenses in excess of the Maximum Approved Sum and shall not be required to perform any duty or obligation hereunder which could entail Developer's incurring any costs or expenses in excess of the Maximum Approved Sum.

C. Developer hereby represents and certifies to Company that all costs and expenses which form the basis of a Draw Request are (i) Approved Costs, (ii) fair, reasonabe and necessary costs and expenses actually incurred by Developer in connection with the performance of its responsibilities under this Agreement with respect to the Projects, and (iii) if such cost or expense is for payment to a third party for services performed or materials rendered, such services were actually performed and/or materials rendered in a manner satisfactory to Developer so that such third party was entitled to payment. Developer further represents and warrants that it will not engage any person or entity, unless such person or entity in Developer's judgment is experienced and reputable and charges competitive rates. Developer agrees to consider engaging or using a contractor or vendor recommended by Company in an effort to reduce costs unless Developer has a reasonable objection to doing so.

D. By its signature below, to induce Developer to enter into this Agreement with Company, Integrated Health Services, Inc. ("IHS") hereby unconditionally guarantees to Developer the payment of Approved Costs and any Termination Development Fee or any other sum due to Developer which Company is

obligated to pay pursuant to this Agreement, as this Agreement may be hereafter from time to time amended, without the joinder or approval of IHS. If following the Offering Date (i) the Offering is consummated and IHS receives the proceeds from the sale thereof, (ii) Company's creditworthiness is satisfactory to Developer and its lender, and (iii) no default by Company in the performance of its obligations under this Agreement has occurred and is continuing, then Developer shall executed a written release and discharge of IHS from its guaranty hereunder (the "Release"), and from and after Developer's execution and delivery of the Release, IHS shall have no further liability hereunder and shall thereupon be released from any and all of its guarantee obligations hereunder. For the purposes of clause (ii) of the immediately preceding sentence, Company's creditworthiness shall be deemed to be satisfactory to Developer and its lender if on the Offering Date or on the date of the first quarterly Form 10-Qfiling of the Company with the Securities and Exchange Commission the following conditions have been fulfilled: (i) the prospectus or Form 10-Q declares or contains a financial statement evidencing that Company's net worth is at least $50,000,000.00 and (ii) the prospectus or Form 10-Q declares or contains a financial statement evidencing that the Company has no less than

$25,000,000.00 in cash.

7. Termination Development Fee. In the event that for any reason the execution of the Leases, the acquisitions of the Sites, and the closing and initial funding of the Acquisition and Construction Financing of the Projects do not occur with respect to any Project(s) on or before October 31, 1996 or the date this Agreement is terminated, whichever is earlier (the "Termination Development Fee Payment Date"), then in such case (unless this Agreement has been terminated for cause (as hereinafter defined) by Company for any reason other than gross negligence), Developer shall be entitled to a fee (the "Termination Development Fee") in an amount equal to fifteen percent (15%) of the total aggregate sum of the Approved Costs incurred by Developer through the Termination Development Fee Payment Date which are to be reimbursed to Developer pursuant to Section 6 above with respect to such Project(s), to compensate Developer for its services hereunder. The parties acknowledge that because it will be difficult (if not impossible) to allocate with any accuracy the Approved Costs between the various Projects, for the purposes of determining the Termination Development Fee that Developer would be entitled to for a Project, the aggregate sum of the Approved Costs incurred by Developer shall be divided evenly between all Projects. Company shall pay the Termination Development Fee to Developer within ten (10) days after the Termination Development Fee Payment Date. Notwithstanding the foregoing, in the event that the execution of the Leases, the acquisitions of the Sites, and the closing and initial funding of the Acquisition and Construction Financing of such Project(s) occur on or before March 31, 1997, any Termination Development Fee paid by Company to Developer

hereunder shall be credited against the rental which would otherwise be due and payable under the Leases.

In the event that within three years from the termination date of this Agreement Company (or any entity controlled by or under common control with Company) goes forward in developing any Project (or any similar type of project utilizing design concepts derived from work performed by Developer) without the involvement and participation of Developer, in recognition of the material assistance provided by Developer, Company shall also pay to Developer an additional Termination Development Fee in an amount equal to two percent (2%) of the aggregate total sum of all construction costs incurred in respect of the construction of any such Project or other project in which Developer is not involved; provided, however, that no such additional Termination Development Fee shall be due or payable in the event that Developer was asked to serve as the construction management coordinator in respect of the construction of any such project whose design utilizes or is derived from a Prototype and declined to so serve (unless such declination was in good faith, such as, for example, because Company would not enter into an AIA standard form of construction management agreement or if Company is not willing to agree to pay Developer at the then prevailing rate of compensation charged by high quality architects and/or construction managers in Dallas, Texas for such services) or if this Agreement is terminated for cause by Company for any reason other than gross negligence.

8. Cooperation; Contact Persons. Developer and Company shall use all reasonable efforts to cooperate with each other in selecting the site for each Project, evaluating and reviewing the various alternatives from time to time presented to Company for its consideration, and meeting with each other upon request and responding to each other's requests for information. To facilitate the cooperation and coordination of Company andDeveloper, the parties agree that Kyle Shatterly of Company and C. Earl Dedman of Developer shall be the respective initially designated "Contact Persons" to whom inquiries and requests for information. on a day-to-day basis, should be directed.

9. Prototype Design. Company has requested Developer to design two prototype facilities (collectively, the "Prototypes"). Developer shall secure and retain a copyright in respect of the design of each Prototype, but Developer shall convey its copyright interests to Company following its receipt of full payment of the design fee for each Prototype pursuant to a written agreement between Developer and Company providing that unless Developer serves as the construction management coordinator, or was asked to serve as the construction management coordinator and declined (unless such declination was in good faith, such as, for example, because Company would not enter into an AIA standard form of construction management agreement or if Company is not willing to agree to

pay Developer at the then prevailing rate of compensation charged by high quality architects and/or construction managers in Dallas, Texas for such services), in respect of the construction of any Project (or any other similar project) whose design utilizes or is derived from a Prototype, Company shall pay to Developer a fee in an amount equal to one and one half percent (1.5%) of the total construction costs incurred in respect of the construction of any such Project. Upon Developer's conveyance to Company of its copyright interest in the design of the Prototypes, Developer may not use or authorize any other person to use such design except for work performed for the Company or any affiliate thereof. Until such time as Developer shall have been paid in full pursuant to this Agreement, Developer shall have and retain full and exclusive ownership and all rights to and in respect of all designs of all Projects performed by Developer and all drawings, sketches and materials pertaining thereto. If Developer was asked to serve as the construction management coordinator in respect of the construction of any Project (or any other similar project) whose design utilizes or is derived from a Prototype and declined to so serve (unless such declination was in good faith, such as, for example, because Company would not enter into an AIA standard form of construction management agreement or if the parties fail to agree upon the amount of compensation to be payable to Developer for its services) , no such fee shall be due or payable.

10. Termination of this Agreement. This Agreement shall be in effect for a period of one (1) year from the date hereof, provided, however, that:

A. This Agreement may be terminated at any time, without cause, for any reason or for no reason, by Company, which termination shall be effective least thirty (30) days from the date on which written notice thereof from Company is received by Developer. Upon any such termination of this Agreement, then Company shall pay to Developer any

sums due under this Agreement, and unless otherwise provided in this Agreement, neither party shall have any other or further obligation or liability to the other.

B. This Agreement may be terminated by Company at any time for cause, which termination shall be effective three (3) business days following the date on which Company's written notice of such termination is received by Developer. For the purpose of thisAgreement, "cause" shall be deemed to mean gross negligence, fraud, malfeasance, bad faith material breach of this Agreement by Developer or its approved designee or the bankruptcy or insolvency of Developer or its approved designee.

C. Upon termination of this Agreement and the full payment to Developer

of all sums due under this Agreement, Developer shall promptly deliver to Company all reports, studies, records, files, books and accounts with respect to the Projects and/or Sites then in Developer's possession or control (provided, that Developer may retain copies thereof for its own internal use and shall not be required to provide any internal working papers or records of Developer nor any document intended for the internal use of and/or distribution to Developer's staff) and release and transfer to Company or its affiliate any and all right, title or interest it or any of its affiliates may have in and to the Sites or any agreements relating thereto .

11. Notices and Communications. All notices, demands, approvals and requests given by either party to the other hereunder shall be in writing and shall be delivered via a reputable overnight delivery service or sent by telecopy (with hard copy to follow by registered or certified mail, postage prepaid), to the parties at the following addresses:

If to Company:

Integrated Living Communities, Inc.
c/o Integrated Health Services, Inc.
10065 Red Run Boulevard
Owings Mills, MD 21117
Attention: Kyle Shatterly
Senior Vice President
Telecopier No.: (410) 998-8501
Telephone No.: (410) 998-8927

With a copy to:

Integrated Health Services, Inc.
10065 Red Run Boulevard
Owings Mills, MD 21117
Attention: Marshall A. Elkins
Telecopier No.: (410) 998-8747
Telephone No.: (410) 998-8408

If to Developer:

Aguirre, Inc.
12750 Park Central Drive, Suite 1508
Dallas, Texas 75231
Attention: C. Earl Dedman

Telecopier No. (214) 788-1583
Telephone No.: 214-788-1508

With a copy to:

Bennett I. Abramowitz, Esq.
Fernandez, Forgerson & Knebel
1717 Main Street, Suite 2100
Dallas, Texas 75201
Telecopier No. (214) 747-2144
Telephone No.: (214) 747-2100

Either party may at any time change its respective address by sending written notice of such change to the other party, which notice shall be effective five (5) business days from the date of the other party's receipt thereof. Any other type of notice shall be deemed to have been given upon the earlier to occur of the actual receipt thereof or the third business day following the mailing thereof in accordance with the terms hereof (provided, however, that notice of termination of this Agreement shall not be effective until the day when it is actually received by the non-terminating party).

12. General Provisions

A. Developer represents and warrants that it has personnel who are members of its staff who will perform services to be rendered by Developer hereunder and are experienced in advising and consulting owners and operators in all phases of developing housing, residential, health care facility and assisted living projects in a variety of locations throughout the United States of America, including, but not limited to, the purchasing, financing, planning, and constructing of such projects from inception to obtaining certificates of occupancies therefor.

B. Developer shall maintain a comprehensive system of office records, files, books and accounts with respect to the Projects and the Sites in a manner consistent with the practices and procedures customarily employed by Developer and in an manner reasonably satisfactory to Company, which records shall be subject to examination by Company at reasonable hours. The obligations of this Paragraph B shall survive the expiration or earlier termination of this Agreement for a period of one year.

C. Comply with present and future laws, ordinances, orders, rules, regulations

and requirements of all federal, state and municipal governments, courts,

departments, commissions, boards and officers, or any other body exercising the functions similar to those of any of the foregoing, which are applicable to Developer and the performance of Developer's duties hereunder and promptly give notice to Company of any condition at any of the Projects which, to the actual knowledge of Developer, violates any such law,ordinance, order, rule, regulation or requirement.

D. Developer shall promptly give notice to Company of any condition or circumstance of which Developer has actual knowledge, concerning any of the Sites or Projects which Developer believes could have a material adverse effect on Company or on the consummation of the transactions contemplated by Company as to any Project.

E. Developer agrees to perform the activities and duties required of it under this Agreement in conformance with the professional standards customarily observed by advisors and consultants engaged in performing such activities and duties. Developer shall make available to Company its knowledge, skills, ideas, experience and abilities with respect to all matters pertaining to the Projects and their development and shall be available to consult with, advise and inform Company and Company's consultants at reasonable times during the term of this Agreement.

F. It is the intention of the parties that Developer shall be, and remain, an independent contractor. The parties do not intend to create a partnership, co-tenancy, joint venture or agency of any kind.

G. Developer and IHS have heretofore entered into that certain letter agreement (the "Confidentiality Agreement"), a copy of which is attached as Exhibit C to this Agreement, with respect to the confidentiality of certain information pertaining to the transactions contemplated herein. Developer, IHS, and Company hereby ratify, adopt and affirm the Confidentiality Agreement, which is incorporated herein by this reference and which shall govern Developer's obligations in respect of the disclosure of confidential information, and agree that the termination of this Agreement shall not terminate or impair the effectiveness of the Confidentiality Agreement..

H. Developer shall not, without the prior written approval of Company, make any news release, public announcement, denial or confirmation of any part of the subject matter of this Agreement or any Contract or other agreement entered into with respect to any of the Projects, or disclose to any third party any privileged or confidential information obtained in connection with this Agreement or any of the Projects except incident to the performance of its duties hereunder. Notwithstanding anything herein to the contrary, however, from and after the acquisition of the Sites, Developer shall be able to disclose to the public that Developer has performed design and development services for Company in respect of the Projects.

I. Except for costs and expenses reimbursable to Developer pursuant to this

Agreement, each party hereto shall bear its own costs and expenses in connection with this Agreement and the transactions contemplated hereby.

13. Lack of Authority.

A. Notwithstanding any other provision of this Agreement, Developer shall have no authority to take any of the following actions, except upon the prior written approval of Company:

(1) Acquire any land or Project or interest therein in the name of Company or any subsidiary or nominee thereof, or as agent of Company or any subsidiary or nominee thereof;

(2) Prior to the acquisition of the Sites, sell or otherwise transfer, mortgage or encumber any part of the Projects or consent to the placing of any encumbrance on any Project or any part thereof.

(3) Make any contract or agreement in the name of Company or any subsidiary or nominee thereof, or as agent of Company or any subsidiary or nominee thereof, or which in any way purports to bind or obligate Company or any subsidiary or nominee thereof in any way;

(4) Make any expenditure or incur any obligation on behalf of Company or any subsidiary or nominee thereof, or as agent of Company or any subsidiary or nominee thereof; and

(5) Take any action which by any provision of this Agreement is required to be approved in advance in writing by Company.

B. Nothing in this Agreement shall be construed as an authorization by Company to Developer of any act restricted by law or any covenant or restriction encumbering or affecting any Project.

14. Indemnification. Developer hereby indemnifies and agrees to hold harmless Company against and from any and all liabilities, claims, suits, fines, penalties, damages, losses, fees, costs and expenses (including reasonable attorneys' fees and disbursements) up to an aggregate amount not to exceed One Million Dollars ($1,000,000.00) which result from (i) Developer's grossly negligent acts, errors or omissions or misconduct in the performance of Developer's duties under this Agreement, or (ii) the gross negligence, willful misconduct, or willful material breach of this Agreement by Developer or any of its employees. Company agrees to indemnify, defend and hold Developer and its employees

harmless from and against any and all liabilities, claims, suits, fines, penalties, damages, losses, fees, costs and expenses (including reasonable attorneys' fees and disbursements) up to an aggregate amount not to exceed One Million Dollars ($1,000,000.00) arising out of or in connection with any willful material breach by Company of this Agreement or the gross negligence or willful misconduct of Company or any of Company's employees. The provisions of thisSection shall survive the expiration or termination of this Agreement for claims arising or accruing prior to such expiration or termination.

15. Litigation. In the event that any litigation arises in respect of this Agreement or any matter pertaining hereto, the prevailing party in any such proceedings shall be entitled to recover court costs and the costs of its attorneys fees and related legal expenses as part of any judgment awarded to such prevailing party.

16. Covenant Not To Compete and Right of First Opportunity

A. During the term of this Agreement and, if Developer or its approved designee and Company enter into any Lease in respect of any Project, for a period of one and one half (1-1/2) years after the date of the termination of this Agreement, neither Developer nor any corporation, partnership or other business entity or person controlling, controlled by or under common control with Developer ("Restricted Party"), shall, directly or indirectly, operate, manage, own, control, be a consultant (except for arranging or providing financing) for or enter into a service contract (except to arrange or provide financing) with, any entity existing or to be formed that competes with Company (any such person or entity being herein referred to as an "Operator") by providing assisted living care in a facility (i) whose primary function is to provide assisted living care and (ii) which is located within twenty five (25) miles from the exterior boundaries of the Project subject to such Lease (a "Competing Facility"); provided, however, that the foregoing terms and provisions shall not preclude any Restricted Party from (1) providing services to or otherwise doing business with an Operator in respect of any facility that is not a Competing Facility or (2) providing financing (or assisting an Operator in securing financing) for any facility, including any Competing Facility.

B. For a period of two years from the date of execution of this Agreement, except incident to the performance of Developer's duties under this Agreement, no Restricted Party shall disclose, directly or indirectly, to any person outside of Company's employ, without the express written authorization of Company, any resident lists, pricing strategies, resident files and records, proprietary data or trade secrets relating to any of the Projects or any financial or other information about the Projects not then in the public domain.

The foregoing limitations shall not be applicable in respect of any disclosures made to any Registered Financial Institution and shall be subject to and superseded by any conflicting or inconsistent provisions of the Leases or any financing related documents hereafter executed by Company and/or any affiliate of Company.

C. For a period of three (3) years from the date of this Agreement, no Restricted

Party shall solicit any of the physicians, customers, vendors, suppliers, associates, employees, independent contractors, residents or families of residents admitted to, or employed at a Project, or by Company or its affiliate, as tenant under the respective Leases, to take any action or to refrain from taking any action or inaction that would be disadvantageous to Company or such tenant or the Project, including (but not limited to) the solicitation of theirrespective physicians, suppliers, customers, vendors, associates, employees, independent contractors, residents or families of residents to cease doing business, or their association or employment with the Company or such tenant or the Project. Notwithstanding the foregoing, for purposes of this Section, any advertisement prepared for and disseminated to the public in general, which advertises the services of any facility of a Restricted Party not otherwise in violation of this Section or advertises the need for services to be supplied to such a facility, shall not be deemed to be an inducement or solicitation with respect to any such residents, physicians, suppliers or independent contractors.

D. Developer acknowledges that the restrictions contained in this Section are reasonable and necessary to protect the legitimate business interests of Company and that any violation thereof by any of the Restricted Parties would result in irreparable harm to Company. Accordingly, Developer agrees that upon the violation by any of the Restricted Parties of any of the restrictions contained in this clause, Company shall be entitled to obtain from any court of competent jurisdiction a preliminary and permanent injunction as well as any other relief provided at law, equity, under this Agreement or otherwise (provided, however that Developer shall in no event be liable for any special, consequential or punitive damages, and Company hereby waives any claim or right thereto which it might otherwise enjoy). In the event any of the foregoing restrictions are adjudged unreasonable in any proceeding, then the parties agree that the period of time or the scope of such restrictions (or both) shall be adjusted to such a manner or for such a time (or both) as is adjudged to be reasonable.

E. During the term of this Agreement, except for opportunities presented to Developer by any Operator, Developer shall offer to Company the opportunity to participage in the acquisition and development and operation of any additional potential site identified by Developer for any personal care,

Alzheimer's disease care, or assisted living care facility prior to offering any such opportunity to any Operator.

F. Developer and Company recognize and acknowledge that they may hereafter enter into one or more written agreements including, without limitation, the National Agreement and the Leases, and hereby agree that in the event of any conflict or inconsistency between any of the provisions of this Agreement and any such subsequent written agreement, the provisions of such subsequent written agreement shall govern and supersede any conflicting or inconsistent provisions of this Agreement.

17. Conditional Limitation. Notwithstanding anything to the contrary contained in this Agreement, in the event that by June 30, 1996 Developer is unable to obtain a line of credit or other financing to fund the costs and expenses that Developer will be incurring in

the performance of its responsibilities under this Agreement despite good faith efforts on the part of Developer to obtain such financing, Developer shall notify Company of its inability and shall have the right to terminate this Agreement upon fifteen days notice to Company, and upon the giving of such notice this Agreement shall automatically terminate unless prior to the expiration of such fifteen day notice period Company or IHS agrees to provide suchfunding or financing to Developer, in which event this Agreement shall remain in full force and effect and Developer's termination notice shall be deemed nullified.

18. Miscellaneous Provisions. This Agreement sets forth the entire agreement of the parties hereto and supersedes any prior oral or written understanding or agreement, which shall be null and void. No purported amendment or modification of this Agreement shall be effective unless and until such amendment or modification is set forth in a writing signed by each of Company and Developer. This Agreement has been jointly negotiated by Company and Developer with the assistance of their respective legal counsel and accordingly, notwithstanding any rule or principle of construction to the contrary, no term or provision of this Agreement shall be construed in favor of or against either party by virtue of the authorship or purported authorship thereof. The headings and captions of the sections and paragraphs of this Agreement are for convenient reference only and shall not be considered in construing or interpreting this Agreement. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original hereof and no party shall be required to account for the presence or absence of any other such counterpart. This Agreement is performable in and shall be governed by the laws of the State of Texas. This Agreement may not be assigned by Company except to an affiliate or in connection with a merger, consolidation or sale of all or substantially all of tenant's assets without the prior written consent of Developer and neither

this Agreement nor any duties or rights hereunder may be delegated or assigned or transferred by Developer; provided, however, that Developer may assign its rights to payments due hereunder to any party providing a line of credit or other financial accommodations to Developer. All the provisions of this Agreement are intended to bind and to benefit only the parties hereto and their permitted successors and assigns. It is not intended that any such provisions benefit, and it shall not be construed that these provisions benefit or are enforceable by, any creditors (other than the enforcement of Company's and/or IHS's payment obligations hereunder by any creditor providing a line of credit to Developer), contractors or other third parties.

IN WITNESS WHEREOF, this Agreement has been executed by Company and Developer and IHS effective as of (although not necessarily on) June 3, 1996 on the attached Signature Page.

SIGNATURE PAGE

to

DEVELOPMENT AGREEMENT

COMPANY:

EXECUTED on June 12, 1996

INTEGRATED LIVING COMMUNITIES, INC.
a Delaware corporation

By: /s/ Edward J. Komp
Edward J. Komp,
President and Chief Executive Officer

IHS:

The undersigned, Integrated Health Services, Inc., is executing this Agreement for the purposes set forth in Section 6 (D) hereof.

INTEGRATED HEALTH SERVICES, INC.

By: /s/ Edward J. Komp

Edward J. Komp,
Executive Vice President

DEVELOPER:

EXECUTED on June 5, 1996

AGUIRRE, INC.,
a Texas corporation

By: /s/ C. Earl Dedman

C. Earl Dedman,
Executive Vice President

EXHIBIT A

TEXAS

LOUISIANA

Bedford/Colleyville

Dallas

Fort Worth

Grand Prairie

Henderson

New Brannfels

Plano

Southlake

San Antonio - Deerfield

San Antonio - Medical Center

San Antonio - Oakwell

Baton Rouge-O'Neil

Baton Rouge-Audubon

Alexandria

Bossier City

Lafayette

Note: The development budget assumes that 16 sites will be selected and implemented.

Executed on June 6, 1996
AGUIRRE, INC.
A Texas Corporation

By: /s/ Earl Dedman

L. Earl Dedman
Executive Vice President

Executed on _____, 1996
INTEGRATED LIVING COMMUNITIES,INC.
A Delaware Corporation

By: /s/ Edward Komp

Edward T. Komp
President/Chief Executive Officer

EXHIBIT B

[Intentionally Omitted]

EXHIBIT C

CONFIDENTIALITY AGREEMENT

March 22, 1996

Mr. John R. Lanier
Aguirre, Inc.
12700 Park Central Drive
Dallas, Texas 75251

Re: Confidentiality Agreement

Dear John:

This letter will serve to set forth our mutual understanding and agreement regarding certain information ("Information") that we may disclose to

each other in the course of our discussions and negotiations with respect to the Assisted Living Public Offering.

1. For a period of two years from the date hereof, neither party shall disclose to any other person, firm, corporation or other entity any of the Information received from the other party, whether such Information is transmitted to the other party in written, verbal or other form, or use any such Information in any way materially detrimental to either party, except that such Information may disclosed by the parties to their respective employees, attorneys and advisors engaged in discussions regarding the contemplated business transactions.

2. Each party shall use the same degree of care to avoid disclosure or use of the Information provided by the other party as it employs with respect to its own proprietary Information that is considered important to the operation of its business.

3. The parties hereto agree that the Information shall not be deeemed proprietary, and neither party shall have any obligation with respect to any Information, which:

a. is or becomes publicly known through no wrongful act of either party; or

b. is recieved on a non-confidential basis from a third party without a similar restricition and without breach of this Agreement; or

c. is approved for release by written authorization of the party providing the confidential Information. Such authorization shall be signed by a corporate officer of the providing party.

4. All written Information and other physical forms of Information delivered by either party to the other party shall be and shall remain the property of the providing party. Upon written request by the providing party, the receiving party shall promptly follow the providing party's instructions to either return or destroy such written or other materials and any and all copies thereof.

5. The receiving party shall have no ownership rights in the Information and agrees that it shall not print, or copy, or permit to be printed or copied, in whole or in part, the Information without the prior written permission of the providing party, except as necessary to discuss the aforesaid business transactions.

6. Each party acknowledges that unauthorized disclosure or use of the Information provided by the other party may cause harm and damage to the business of the providing party which may be difficult to ascertain and which may not be adquately compensated in damages at law. Therefore, each party agrees that it may be enjoined from disclosing or using the Information.

7. This Agreement shall be binding upon and inure to the benefit of the parties' succesors in interest. This Agreement shall not be assignable by either party hereto without the written consent of the other party hereto and any purported assignment without such consent shall be void. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and shall supersede all previous communications, representations, understandings, and agreements, either oral or written between the parties or any officials or representatives thereof. This Agreement may not be changed or modified save by a written agreement signed by the parties hereto or by their successors in interest. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland.

Kindly inidicate your agreement with the foregoing by signing and returning to us a copy of this letter.

Sincerely,

By: /s/ Michael D. Drusano

Michael D. Drusano
Director Project Finance

ACCEPTED AND AGREED THIS 28th DAY OF March, 1996.

By: /s/ Earl Dedman

Name: EARL DEDMAN, P.E.

Title: EXECUTIVE VICE PRESIDENT

MARCELA ABADI	/s/ Marcela Abadi
KEN CROSBY	/S/ Ken Crosby
HENRY D'ELENA	/s/ Henry D'Elena
VINCE MILLER	/s/ Vince Miller

IHS
Integrated Health Services, Inc.

March 18, 1996

VIA FEDERAL EXPRESS

The Homestead Company, L.C.
151 Whittier, Suite 2000
Wichita, KS 67207
Attention: Mr. Jack West

Dear Mr. West:

This letter of intent will serve to express our mutual understandings with respect to the proposed development agreement, lease, purchase option and working capital line of credit (the "Transaction") between a subsidiary of Integrated Living Communities, Inc., (such subsidiary herinafter called "ILC") and The Homestead Company, L.C., a Kansas limited liability company (the "Owner") for the construction and development of assisted living facilities in the states of Kansas, Missouri, Nebraska, Iowa and other states in the midwest (the "Facilities"). It is contemplated that a public offering of the stock of Integrated Living Communities, Inc. (the "Parent") will be completed.

Our intention to consummate the Transaction is subject to the following terms and conditions:

1. Line of Credit. ILC will make available to Owner a revolving line of credit (the "Line of Credit") in the maximum principal amount of Eight Hundred Thousand ($800,000) Dollars, pursuant to a revolving credit and security agreement (the "Revolving Credit and Security Agreement"). The Line of Credit shall be evidenced by a revolving note (the "Note") and shall be secured by a lien on the Owner's properties under development. The lien in favor of ILC shall extend to all tangible and intangible assets now owned or hereafter acquired by Owner in connection with the construction and development of the Facilities, including, but not limited to, land contracts and land purchase options, architectural plans, licenses and permits.

The Line of Credit shall be subject to the terms and conditions outlined in the Note and the Revolving Credit and Security Agreement of even date herewith.

2. Construction of Facilities. Owner shall develop and construct the Facilities pursuant to architectural and engineering plans submitted to and approved by ILC so that the Facilities as constructed will be suitable to ILC's

purposes, and subject to all applicable health facility licensure and local building code requirements.

10065 Red Run Boulevard Owings Mills, Maryland 21117
410-998-8400 Fax: 410-998-8700
Hospital Care Without Hospital Costs

ILC and Owner will enter into a development agreement (the "Development Agreement") pursuant to which Owner will guarantee completion of the construction of the Facilities, agree to submit all sites, architectural and engineering plans to ILC for its approval, which approval shall not be unreasonably withheld or delayed, and provide for ILC to have management involvement in the facility set-up at least sixty (60) days prior to the opening of each of the Facilities. Owner shall provide a completely furnished "turnkey" facility containing all fixtures and equipment necessary to operate each of the Facilities as an assisted living facility, except for furniture, furnishings (including carpet and wallpaper), telephone equipment, customary supplies, inventory and consumables, and office and computer equipment.

3. Lease. Upon completion of the construction and the issuance of certificates of occupancy and licenses from all agencies having jurisdiction over each Facility, ILC will enter into a lease of such completed Facility (a"Lease") for an initial lease term of ten (10) years (the "Initial Term"). Each Lease will be renewable at the option of the ILC for three (3) successive five (5) year terms (each term being hereafter referred to as a "Renewal Term"). Each Lease will commence anytime after the receipt of the above-referenced items, except tht each Lease shall commence no later than five (5) business days after the receipt of the above-referenced items (the "Commencement Date"). The Commencement Date is subject to the satisfaction of all of the conditions contained in Paragraph 11 of this letter, as well as all customary representations and warranties.

The annual rent in the first year of the Initial Term shall be $248,500 and shall be payable in equal monthly installments, in advance, on the first day of each month. The annual rent shall increase each year by the annual increase in the Consumer Price Index for the applicable statistical area.

In addition to the annual rent as set forth above, each Lease shall provide that ILC shall be responsible for payment of all expenses of the Facilities, such as real estate taxes, personal property taxes, insurance, utilities, maintenance systems, and repairs and expenses of operation, such that the annual rent shall be net to Owner. ILC shall not, however, be responsible for any income taxes of Owner, or for any indebtedness incurred by Owner. It will be the obligation of the Owner to make payments on any outstanding mortgage on the Facilities; provided, that in the event the mortgagee under such mortgage requires an escrow for real estate taxes, ILC will reimburse Owner on a monthly

basis any escrowed funds for real estate taxes placed with the mortgagee as the same are paid to the mortgagee.

The property to be leased shall include each of the Facilities, including, but not limited to, its premises (including all real property and improvements) and all furnishings, fixed and moveable equipment and tangible personal property required to operate each of the Facilities as an assisted living facility or such other use as mutually agreed by the parties (subject to the exclusions contained in Paragraph 2 of this letter), including licenses, permits and other intangible assets associated with the operations of the Facilities, which shall be assigned to ILC to the extent assignable.

At the end of the Initial Term or, if applicable, any Renewal Term thereof or upon the earlier termination of the Lease, ILC shall surrender the Facilities and the leased equipment (including additions, replacements and accessories thereto) and fixtures to Owner.

4. Guarantees.

(a) The annual rent under the Leases shall be guaranteed by Parent and Integrated Health Services, Inc. ("IHS"); provided, however, that IHS's rent guarantee shall apply only to the first ten (10) Facilities to be developed by Owner. In the event that IHS successfully completes a public offering of the stock of Parent, IHS's guarantee will be released upon the satisfaction of certain financial covenants to be mutually agreed by the parties.

(b) IHS shall provide a guarantee of the construction financing for first ten (10) Facilities to be developed by Owner.

5. Facility Purchase Option. Upon the Commencement Date of each Lease, Owner shall grant to ILC the sole and exclusive option (the "Facility Purchase Option") to purchase such Facility for a purchase price equal to the fair market value of the Facility on the exercise date of the Facility Purchase Option as determined by an MAI appraiser, which purchase price shall be no less than $2,100,000 (the "Option Price"), less the amount of the Purchase Option Deposit as defined below. If the parties cannot agree on an appraiser, the Option price shall be determined by averaging the results of appraisals conducted by three (3) MAI appraisers chosen according to the following process: ILC shall select and pay for the first appraiser, Owner shall select and pay for the second appraiser and the third appraiser shall be selected by the first two appraisers the cost of which shall be shared by the Owner and ILC. The Facility Purchase Option shall be exercisable by ILC at any time after the fifth anniversary date of the Initial Term or any Renewal Term upon one hundred twenty (120) days

notice to Owner. If ILC exercises the Facility Purchase Option, ILC shall not assume any indebtedness or other liabilities of the Owner or the Facility, all of which will be satisfied in full by Owner at the closing of the purchase of such Facility. On the Commencement Date, ILC and Owner will enter into a facility purchase option agreement (the "Purchase Option Agreement") which will set forth terms and conditions of the Facility Purchase Option.

6. Purchase Option Deposits. ILC shall pay to Owner a cash purchase option deposit in the amount of $100,000 (a"Purchase Option Deposit") for each Facility which ILC leases from Owner upon the Commencement Date of each applicable Lease.

7. Closing. The execution of the Note, the Credit and Security Agreement and the Development Agreement shall take place on or before April 30, 1996, unless extended by Owner for a period not to exceed 60 calendar days (the "Execution Date").

8. Indemnification. The Owner and Jack West shall indemnify and hold harmless ILC, Parent and IHS with respect to losses arising out of any breach of the Owner's representations and warranties with respect to its properties and its authority, as well as with respect to all representations or warranties concerning the business, operations, or financial condition or results of the Facilities prior to the applicable Commencement Date. ILC shall indemnify and hold harmless the Owner with respect to losses arising out of any breach of ILC's representations and warranties contained in the definitive agreements.

9. Public Announcements. Subject to requirements of law, any news releases or other announcements by Owner or ILC pertaining to this letter, the Transaction, or the negotiations concerning the Transaction shall be approved in writing by all parties prior to release. ILC and the Owner shall keep the existence of this letter and its contents confidential, except as may be necessary for ILC to comply with applicable law after reasonable notice to the Owner. Notwithstanding the foregoing, the Owner understands that IHS is a publicly-traded company and, as such, may be required to disclose this transaction and the terms thereof by a filing with the Securities and Exchange Commission or by the issuance of a press release. To the extent possible , ILC shall give Owner prior notice of, and an opportunity to review and approve, any such disclosure. The provisions of this Paragraph 9 will expire on the Execution Date.

10. Conditions to Execution of Definitive Agreements. The execution of the Development Agreement shall be subject to the fulfillment of the following conditions:

(a) Due Diligence. The Owner acknowledges that, as of the execution of this letter of intent, ILC has not had the opportunity to inspect any of the properties or to conduct any investigation of the Owner's business and financial conditions. Prior to the Execution Date, the Owner shall permit representatives of ILC to enter its offices or visit the sites during normal working hours to observe and evaluate the daily management and operations of the Owner, review the budgets and projections provided by the Owner and all other procedures that it deems appropriate in its sole discretion (the "Due Diligence").

(b) Documentation. The negotiation of a definitive Note, Revolving Credit and Security Agreement and Development Agreement setting forth all terms and conditions, including all customary provisions, representations, warranties, non-competition and other convenants.

(c) Consents. ILC and Owner shall have received all required consents and approvals from its respective lenders and boards of directors.

(d) Construction Financing. Owner's receipt of a commitment for construction financing for the first ten (10) Facilities to be developed by Owner, as well as ILC's review and approval of the terms and conditions of such commitment.

11. Conditions to Commencement of Leases. The execution and commencement of each Lease and Purchase Option Agreement shall be subject to the fulfillment of the following conditions:

(a) Due Diligence. Further completion of the Due Diligence, as well as the completion of environmental and engineering studies, survey and title reports, and any other procedures that ILC deems appropriate in its sole discretion.

(b) Documentation. The negotiation, execution, and delivery of a definitive Lease and Purchase Option Agreement setting forth all terms and conditions, including all customary provisions, representations, warranties, non-competition and other covenants, and the receipt by the parties of such ancillary documents, including opinions of counsel and non-disturbance agreements, as shall be acceptable to ILC and its counsel.

(c) Title. ILC; at its own cost, shall have received and reviewed to its satisfaction all recorded title documents, mortgages, liens, and other matters affecting title to the Owner's properties and shall have obtained title insurance at regular rates, without additional premium.

(d) Regulatory Matters. ILC shall have received and reviewed to its satisfaction copies of all licenses, permits, licensure surveys, other regulatory materials, structural and equipment requirements, building permits and approval requirements pertaining of the Owner's properties. The Owner's properties shall be in material compliance with all material standards of licensure and other applicable legal requirements, including, without limitation, all building, zoning, occupational safety and health, environmental, and residential care laws, ordinances, and regulations relating to the Owner's properties.

(e) Non-Disturbance Agreement. Execution of a Non-Disturbance Agreement by any Facility lender associated with mortgage obligations with respect to the Facilities in a form acceptable to ILC.

(f) Financing. Owner's receipt of a commitment for permanent mortgage financing for each Facility, as well as ILC's review and approval of the terms and conditions of such commitment. ILC shall not be required to guarantee any long-term or mortgage obligations of Owner.

12. Exclusivity. Until June 30, 1996, or such longer period as may be necessary to obtain any required regulatory approvals (unless, as of any earlier date, ILC has ended its active efforts to consummate the transactions contemplated herein), neither the Owner nor any of its affiliates shall negotiate directly or indirectly with any other party in respect of the lease or sale of the Owner's properties, the development of assisted living properties for another party or the sale of a controlling interest in the Owner.

13. Confidentiality. In the course of the discussions and negotiations each party may disclose to the other certain proprietary, confidential or other non-public information (collectively, the "Information") relating to its respective business, the proprietary, confidential and non-public nature of which Information both parties desire to maintain. Except as herein set forth, neither party shall (a) reveal or make known to any person, firm, corporation or entity, other than its own management and advisors, including its attorneys, accountants and lenders, or (b) utilize in its own business, or (c) make any other usage of, any Information disclosed to it by the other in connection with the discussions and negotiations above mentioned. Notwithstanding the foregoing, (i) each party may disclose any Information received from the other party to any governmental or regulatory authority in connection with obtaining approval of the transactions contemplated hereby, and (ii) if required, IHS or ILC may disclose any Information received fron the Owner to their lender in connection with obtaining their approval of the transactions contemplated hereby. A party's obligations with respect to any item of Information disclosed to it shall terminate if that item of Information becomes disclosed in published literature or otherwise becomes generally available to the public; provided, however, that such public disclosure did not result, directly or indirectly, from any act,

omission, or fault of such party with respect to that item of Information. Further, this Section 13 shall not apply to any item of Information which at the time of disclosure was already generally available to the public or which at the time of disclosure was already in the possession of the party intending to utilize the item of Information and was not acquired by such party, directly or indirectly, from the disclosing party under a confidentiality agreement. The parties agree that the information either has received or may receive from the other has been and will be used by the receiving party solely for the limited purpose of its investigation and evaluation of the other party in connection with the transactions contemplated hereby.

As soon as possible after execution and delivery of this letter, the parties will cooperate in the negotiation and preparation of the definitive agreements and other necessary documentation and will use all reasonable efforts to satisfy the conditions set forth in Paragraph 10 hereof which are in their respective control, each party to bear its own expenses with no liability for such expenses to the other party, whether or not the proposed Acquisition or any part thereof shall close.

It is understood that this letter merely constitutes a statement of the mutual intentions of the parties with respect to the proposed transactions, does not contain all matters upon which agreement must be reached in order for the proposed transactions to be consummated and, except as respects Paragraphs 9, 12, and 13, above, creates no binding rights in favor of either party. A binding commitment with respect to the proposed transactions will result only after execution and delivery of definitive agreements, subject to the terms and conditions contained therein.

[SIGNATURES ON THE FOLLOWING PAGE]

If the foregoing is acceptable to you, please so indicate by signing a copy of this letter and returning it to the undersigned. This letter will be void unless it is fully executed and returned to ILC by Owner by 5:00 P.M. on March 22, 1996.

Very truly yours,

INTEGRATED LIVING
COMMUNITIES, INC.

By: /s/ Elizabeth B. Kelly

Elizabeth B. Kelly
Senior Vice President
Corporate Development

ACCEPTED AND AGREED TO:

THE HOMESTEAD COMPANY, L.C.

By: /s/ Jack West

Jack West,
President

/s/ Jack West

Jack West, Individually

Date: 3-19-96

REVOLVING CREDIT NOTE

$800,000.00 Dated: March 18, 1996

FOR VALUE RECEIVED, the undersigned, THE HOMESTEAD COMPANY, L.C., a Kansas limited liability company ("Borrower"), hereby unconditionally promises to pay to the order of INTEGRATED HEALTH SERVICES RETIREMENT MANAGEMENT, INC., a Delaware corporation ("Lender"), the principal amount of each loan made by the Lender to the Borrower pursuant to the Revolving Credit and Security Agreement, the aggregate principal amount of which loans to Borrower at any time outstanding shall not exceed the sum of EIGHT HUNDRED THOUSAND ($800,000.00) DOLLARS, provided that the entire principal balance of such loans and all accrued and unpaid interest thereon shall be fully due and payable one (1) year after the date hereof.

This Note shall bear interest from its date until maturity on the principal amount outstanding from time time hereunder (calculated on the basis of a 360-day year of twelve 30-day months) at a rate of eleven and three quarters of one (11-3/4%) per cent per annum, such interest to accrue on a monthly basis. Each payment made hereunder shall be applied first to the payment of all accrued interest and the balance shall be applied to the principal.

Notwithstanding any provision contained herein or in the Revolving Credit and Security Agreement, the total liability of Borrower for payment of interest pursuant hereto, including late charges, shall not exceed the maximum amount of such interest permitted by law to be charged, collected, or received from Borrower, and if any payments by Borrower include interest in excess of such a maximum amount, Lender shall apply such excess to the reduction of the unpaid principal amount due pursuant hereto, or if none is due, such excess shall be refunded to Borrower.

This Note is the Loan Note referred to in the Revolving Credit and Security Agreement of even date herewith made by and between the Borrower and the Lender (the "Revolving Credit and Security Agreement"). This Note is entitled to all of the benefits under the Revolving Credit and Security Agreement and the other agreements and documents executed pursuant thereto or in connection therewith (collectively, the "Loan Documents"). Borrower shall pay all costs of collection of this Note, including reasonable attorney's fees.

The Lender is authorized but not required to record the date and amount of each loan made, the date and amount of any principal and interest payment, and the principal balance hereof on any schedule which may be attached hereto and made a part hereof, and any such recordation shall, in the absence of manifest error, constitute prima facie evidence of the accuracy of the information so recorded; provided however, that the Lender's failure to so record shall not limit the obligations of the Borrower hereunder and under the Revolving Credit and Security Agreement to pay the principal of and interest on the loans.

Borrower waives notice of demand, presentment for payment, notice of protest, and protest of this Note. All rights and remedies given by this Note, the Revolving Credit and Security Agreement, the other Loan Documents and by law are cumulative and not exclusive of any thereof or of any other rights or remedies available to the Lender and no course of dealing between Borrower and the Lender, or any delay or omission in exercising any right or remedy, shall operate as a waiver of any right or remedy, and every right and remedy may be exercised from time to time and as often as shall be deemed appropriate by Lender.

Borrower represents and warrants that the loans evidenced hereby are made for business purposes only and are therefore commercial loans.

The Borrower may repay all or any part of the remaining principal balance of this Note at any time without penalty or premium.

This Note shall be governed, interpreted, and enforceable in accordance with the laws of the State of Maryland.

IN WITNESS WHEREOF, the undersigned has executed this Note on the date first above written.

THE HOMESTEAD COMPANY, L.C.

By: /S/ Jack West
Name: Jack West
Title: CEO

ALLONGE AND AMENDMENT OF REVOLVING CREDIT NOTE

Reference is made to that certain Revolving Credit Note in the original principal amount of $800,000, dated March 18, 1996 (the "Original Note") made by THE HOMESTEAD COMPANY, L.C., a Kansas limited liability company ("Borrower"), and payable to INTEGRATED HEALTH SERVICES RETIREMENT MANAGEMENT, INC., a Delaware corporation ("Lender"). This Allonge and Amendment (this "Allonge") shall be and remain attached to and shall constitute an integral part of the above described Original Note from and after the date hereof (the Original Note as modified by this Allonge being hereinafter referred to as the "Note"). Terms capitalized but not otherwise defined herein shall have the meanings given to them, respectively, in the Original Note.

The Original Note is hereby amended by amending the first Paragraph thereof in full to read as follows:

"FOR VALUE RECEIVED, the undersigned, THE HOMESTEAD COMPANY, L.C., a Kansas limited liability company ("Borrower"), hereby unconditionally promises to pay to the order of INTEGRATED LIVING COMMUNITIES RETIREMENT MANAGEMENT,INC., a Delaware corporation ("Lender"), the principal amount of each loan made by the Lender to the Borrower pursuant to the Revolving Credit and Security Agreement, the aggregate principal amount of which loans to Borrower at any time outstanding shall not exceed the sum of ONE MILLION ($1,000,000.00) DOLLARS, provided that the entire principal balance of such loans and all accrued and unpaid interest thereon shall be fully due and payable one (1) year after the date hereof."

The Original Note is further amended by increasing the face amount thereof to $1,000,000.00, and by reflecting the name change of Lender from "Integrated Health Services Retirement Management, Inc." to "Integrated Living Communities Retirement Management, Inc."

Except as modified hereby, all the terms and conditions of the Original Note are hereby ratified and confirmed. This Allonge may be signed in one or more counterparts each of which taken together shall constitute one and the same instrument.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, and intending to be legally bound hereby, the undersigned has caused this Allonge to be executed as of the 12th of July, 1996.

THE HOMESTEAD COMPANY, LLC

BY: /s/ Jack West

Name: Jack West

Title: CEO

ACCEPTED BY:
INTEGRATED LIVING COMMUNITIES
RETIREMENT MANAGEMENT, INC.

By: /s/ Edward J. Komp

Name: Edward J. Komp

Title: Executive Vice President

REVOLVING CREDIT AND SECURITY AGREEMENT

AGREEMENT made as of the 18th day of March , 1996, between THE HOMESTEAD COMPANY, L.C., a Kansas limited liability company (the "Borrower"), and INTEGRATED HEALTH SERVICES RETIREMENT MANAGEMENT, INC., a Delaware corporation ("Lender").

WHEREAS, Borrower is the holder of four (4) land contracts in Kansas and six (6) land contracts in Nebraska (the "Sites") and any additional land contracts entered into by Borrower with the approval of Lender, all as scheduled on Exhibit A attached hereto (collectively, the "Land Contracts"); and

WHEREAS, Borrower wishes to obtain a loan to finance the development of assisted living facilities ("Facilities") on the Sites; and

WHEREAS, Lender is willing to make available to Borrower a revolving line of credit in the maximum amount of $800,000.00, and Borrower wishes to obtain such revolving line of credit, all upon the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises hereinafter set forth, and for other good and value consideration, the parties hereby agree that:

1. REVOLVING CREDIT LOAN.

Subject to the terms and conditions hereof and relying upon the representations and warranties of Borrower herein set forth. Lender shall make a revolving credit loan ("Loan") to Borrower, provided that the aggregate principal amount of all Loans at any one time outstanding to the Borrower shall not exceed the sum of EIGHT HUNDRED THOUSAND ($800,000.00) DOLLARS. Within such limits of amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay, and reborrow pursuant to this Section 1. The proceeds of the Loan shall only be used for the development of the Facilities pursuant to the Land Contracts. At any time when Borrower wishes to borrow any amounts under the Loan, Borrower will notify Lender of the amount requested and proposed use of the proceeds, and, subject to Lender's approval, Lender will use its best efforts to remit the amount requested to Borrower with five (5) business days of the request.

2. LOAN NOTE.

The obligation of the Borrower to repay the aggregate unpaid principal amount of the Loans, together with interest thereon, shall be evidenced by the certain revolving credit note (the "Loan Note") of Borrower of even date herewith, payable to the order of Lender in a face amount equal to the maximum loan amount set forth in Section 1, above, and payable upon the demand of Lender

3. REPAYMENT OF THE LOAN.

(a) Interest on the Loan shall accrue monthly at a rate per annum of eleven and three quarter of on (11-3/4%) percent.

(b) The entire outstanding principal balance of the Loan Note, and all accrued and unpaid interest thereon, shall be fully due and payable by the Borrower one (1) year after the date hereof.

4. GRANT OF SECURITY INTEREST.

(a) Borrower hereby grants to Lender a lien and security interest in all of the following described property (the "Collateral"):

(i) Borrower's interest in any and all of the documentation, including architectural plans, of the development and construction of the Facilities;

(ii) an assignment of the Land Contracts;

(iii) Borrower's interest in any and all licenses, permits and other governmental approvals for the Facilities; and

(iv) any and all proceeds of any of the foregoing.

(b) The lien and security interest granted herein is given to secure performance and payment of all obligations, fees and indebtedness of Borrower to Lender or any of its subsidiaries of whatever kind and whenever or however created or incurred, whether now existing or hereafter arising (hereinafter called the "Obligations"), including, without limiting the generality of the foregoing, any such obligations or indebtedness arising under this Agreement.

(c) Borrower will take any and all action requested by Lender to perfect Lender's security interest in the Collateral granted pursuant to the terms of this Section 4, including, without limitation, the execution and filing of financing statements in any jurisdiction which Lender deems appropriate.

(d) Jack West, the Cheif Executive Officer of Borrower, will execute a Personal Guaranty guaranteeing the payment to Lender of any and all amounts of principal and accrued and unpaid interest thereon of the Lease; provided, that the maximum liability of Jack West under the Personal Guaranty will not exceed $250,000.

5. PRIORITY OF LIEN.

Borrower represents, warrants and agrees that (i) Borrower owns good and indefeasible title to the Collateral, (ii) no security interest or lien has been created by Borrower, or is known by Borrower to exist with respect to any

Collateral, (iii) no financing statement or other security instrument is on file in any jurisdiction covering such Collateral, (iv) Borrower will not create any other security interest or lien and will ot file or permit to be filed any other financing statement or other security instrument with respect to the Collateral other than required pursuant to Section 4 hereof, without the consent of Lender, (v) Borrower will not incur any additional debt without the prior wirtten consent of Lender, and (vi) Borrower will not sell, assign, transfer or in any other way alienate Borrower's rights under the Land Contracts without the prior written consent of Lender. Borrower will execute, deliver and file such financing statements, security agreements and other documents as may be requested by Lender from time to time to confirm, perfect and preserve the security interest created hereby, and in addition, hereby authorizes Lender to execute on behalf of Borrower, deliver and file such financing statements, security agreements and other documents without the signatures of Borrower, all at the expense of Borrower. The lien herein referred to as security for the Obligations, in favor of Lender, is and shall be first, prior and superior to all other liens with respect to the Collateral.

6. ADDITIONAL COVENANTS OF BORROWER.

(a) Until the Obligations are paid in full, and subject to the provisions of Section 7, below, Borrower agrees that it will;

(i) furnish or cause to be furnished to the Lender any financial or other information that the Lender may reasonably deem necessary or desirable;

(ii) duly pay and discharge all taxes, assessments and governmental charges owed by or against Borrower or any of its properties, prior to the date on which penalty will attach thereto, unless and only to the extent that any such taxes are contested in good faith by appropriate proceedings by Borrower;

(iii) take whatever actions are necessary to comply with all statutes and regulations governing the construction of the Facilities;

(iv) promptly cure any defects in the execution and delivery of this Agreement and all other instruments executed in connection with this transaction;

(v) execute and deliver or causes to be executed and delivered any other instruments or documents which the Lender may reasonably request;

(vi) promptly notify the Lender of any Event or Default discovered by Borrower;

(vii) provide Lender with monthly development reports regarding the status of the Sites, including, without limitation, progress updates on any relevant due diligence dates and deadlines under the Land Contracts; and

(viii) not incur any pre-development costs for the Sites without the prior approval of Lender which shall not be unreasonably withheld.

7. REMEDIES.

If all or any part of the Obligations shall become due and payable, Lender shall have in any jurisdiction where enforcement hereof is sought, in addition to all other rights and remedies which Lender may have under law or in equity, the following rights and remedies: to foreclose the liens and security interests created under this agreement or under any other agreement relating to Collateral by any available judicial procedure or without judicial process, to enter any premises where any Collateral may be located for the purpose of taking possession or removing the same, to sell, assign, lease, or otherwise dispose of the Collateral or any part thereof, either at public or private sale or at any broker's board, in lots or in bulk, for cash, on credit or otherwise, with or without representations or warranties, and upon such terms as shall be acceptable to Lender, all at Lender's sole option and as Lender in its sole discretion may deem advisable, and Lender and Borrower may bid or become purchaser at any such sale if public, free from any right of redemption which is hereby expressly waived by the Borrower, and Lender shall have the right at its option to apply or be credited with the amount of all or any part of the Obligations owing to Lender against the purchase price bid by Lender at any such sale. The net cash proceeds resulting from the collection, liquidation, sale, lease, or other disposition of Collateral shall be applied first, to the expenses (including all attorneys' fees) of retaking, holding, storking, processing and preparing for sale, selling, collecting liquidating and the like, and then to the satisfaction of all Obligations, application as to particular Obligations or against princpal or interest to be in Lender's absolute discretion. The Borrower shall be liable to Lender and shall pay to Lender on demand any deficiency which may remain after such sale, disposition, collection or liquidatgion of Collateral, and Lender in turn agrees to remit to the Borrower any surplus remaining after all Obligations have been paid in full. The Borrower will, at Lender's request, assemble all Collateral and make it available to Lender at places which Lender may select, whehter at premises of the Borrower or elsewhere, and will make available to Lender all premises and facilities of the Borrower for the purpose of Lender's taking possession of Collateral or of removing or putting the Collateral in saleable form.

8. WAIVERS

With respect to both Obligations and Collateral, the Borrower assents to any extension or prosponement of the time of payment or other indulgence, to any substitution, exchange or relase of Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payments thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Lender may deem advisable. The Lender may exercise its rights with respect to Collateral without resorting or regard to other Collateral or sources of reimbursement for

Obligations. The Lender shall not be deemed to have waived any of its rights upoon or under Obligations or Collateral unless such waiver be in writing and signed by the Lender. No delay or omisssion on the part of the Lender on Obligations or Collateral, whether evidenced hereby or by any other instrument or paper, shall be cumulative and may be exercised spearately or concurrently.

9. TRANSFERS BY LENDER.

Lender may transfer any or all of the Obligations, and upon any such tranfer Lender may transfer any or all of the Collateral to an affiliate of Lender and shall be fully discharged thereafter from all liability with respect to the Collateral so transferred, and the transferee shall be vested with all rights, powers and remedies of Lender hereunder with respect to Collateral so transferred; but with respect to any Collateral not so transferred Lender shall retain all rights, powers and remedies hereby given. Lender may at any time deliver any or all of the Collateral to Borrower, whose receipt shall be a complete and full acquittance for the Collateral so delivered, and Lender shall thereafter be discharged from any liability therefor.

10. DEFINITION OF BORROWER.

The term "Borrower" as used throughout this Agreement shall include (a) the successors and assigns of Borrower; (b) any individual, association, trust, partnership, corporation, or other entity to which all or substantially all of the business or assets of Borrower shall have been transferred or with or

into which the business of Borrower shall have been merged, consolidated, reorganized or absorbed; and (c) in the case of a partnership or joint venture, any general or limited partnership or joint venture which shall have been created by reason of, or continued in existence after, the admission of any new partner, partners or joint venturers therein or the dissolution of the existing partnership or joint venture by the death, resignation or other withdrawal of any partner or joint venturer.

11. CONTINUTING AGREEMENT.

This is a continuing agreement and all the rights, powers and remedies of Lender hereunder shall continue to exist unless (a) all Obligations shall have been paid in full, or (b) Lender, upon request of Borrower, has executed a termination statement. Otherwise this Agreement shall continue irrespective of the fact that any or all of the Obligations may have become barred by any statue of limitations or that the liability of Borrower may have ceased, and notwithstanding the death, incapacity or bankruptcy of Borrower or any other event or proceeding affecting Borrower. The rights, powers and remedies of Lender hereunder shall be in addition to all rights, powers and remedies given by statute or rule of law and, regardless of whether or not the Uniform Commercial Code is in effect in the jurisdiction where such rights, powers and remedies are asserted, Lender shall have the rights, powers and remedies of a

Lender under the Uniform Commercial Code, as amended. No forbearance or delay by Lender in exercising any right, power or remedy shall be deemed a waiver thereof or preclude any other or further exercise thereof; and no single or partial exercise of any right, power or remedy shall preclude any other or further exercise thereof, or the exercise of any right, power or remedy.

12. MAXIMUM INTEREST.

All agreements between Borrower and Lender are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of deferment in accordance with this Agreement or advancement of the loan proceeds, acceleration of maturity of the Obligations, or otherwise, shall the amount paid or agreed to be paid to Lender for the use, forbearance or detention of the money to be loaned hereunder exceed the maximum permissible under applicable law. If, from any circumstance whatsoever, fulfillment of any provision hereof, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any circumstance Lender should ever receive as interest an amount which would exeed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal of the Obligations and not to the payment of interest.

13. BORROWER'S REPRESENTATIONS AND WARRANTIES.

To induce the Lender to enter into the transactions provided for herein, Borrower represents and warrants to Lender that:

(a) Borrower is duly authorized to execute and deliver this Agreement ant to perform all of its obligations under this Agreement, including the execution, delivery and performance of whatever addtional documents are necessary or required in connection with the transactions contemplated herein;

(b) the execution and delivery by Borrower of this Agreement and the performance by Borrower of its obligations under this Agreement do not and will not conflict with any provision of law, or of any other agreement affecting or binding upon Borrower;

(c) this Agreement, when duly executed and delivered, will be the valid and binding obligation of Borrower enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights and except to the extent that the availabilty of specific performance thereof may be limited by principles of equity; and

(d) the proceeds of the Loan will be used for business purposes, and the Loan constitutes a commercial loan.

14. NOTICES.

Any notice or other communication by either party to the other shall be in writing and shall be given and be deemed to have been duly given, upon the date delivered if delivered personally or upon the date received if mailed postage pre-paid, registered, or certified mail, addressed as follows:

To the Borrower:The Homestead Company, L.C.
155 North Market Street, Suite 910
Wichita, KS 67207
Attention: Jack West

To the Lender:Integrated Helath Services Retirement Management, Inc.
10065 Red Run Boulevard
Owings Mills, MD 21117
Attention: Daniel J. Booth

With copies to:Integrated Health Services Retirement Management, Inc.
10065 Red Run Boulevard
Owings Mills, MD 21117
Attention: Marshall A. Elkins, Esq.
Blass & Driggs
461 Fifth Avenue, 19th Floor
New York, NY 10017
Attention: Michael S. Blass, Esq.

or to such other address,a nd to the attention of such other person or officer as either party may designate in writing by notice.

15. APPLICABLE LAW.

The substantive laws of the State of Maryland shall govern the validity, construction, enforcement and interpretation of this Agreement and all other documents and instruments referred to herein, unless otherwise specified therein.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the date first above written.

BORROWER:	LENDER:
THE HOMESTEAD COMPANY, L.C.	INTEGRATED HEALTH SERVICES RETIREMENT MANAGEMENT, INC.
By: /s/ Jack West	By: /s/
Name: Jack West	Name:

AMENDMENT NO. 1
TO
REVOLVING CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT NO. 1 TO REVOLVING CREDIT AND SECURITY AGREEMENT (the "First Amendment") is made as of the 12th day of July, 1996, by and between THE HOMESTEAD COMPANY, L.C., a Kansas limited company (the "Borrower"), and INTEGRATED LIVING COMMUNITIES RETIREMENT MANAGEMENT, INC., a Delaware corporation ("Lender").

WHEREAS, Borrower and Lender have entered into that certain revolving credit and security agreement dated March 18, 1996 (the "Rvolving Credit and Security Agreement"); and

WHEREAS, pursuant to the Revolving Credit and Security Agreement, Lender made available to Borrower a revolving line of credit in the maximum amount of $800,000, pursuant to the terms and conditions set forth therein; and

WHEREAS, Lender was formerly known as "Integrated Health Services Retirement management, Inc."; and

WHEREAS, the parties wish to amend the Revolving Credit and Security Agreement to increase the maximum amount of the line of credit to $1,000,000.

NOW THEREFORE, in consideration of the mutual promises hereinafter set forth, and for other good and valuable consideration, the parties hereby agree as follows:

Section 1 of the Revolving Credit and Security Agreement shall be amended to read in its entirety as follows:

"Subject to the terms and conditions hereof and relying upon the representations and warranties of Borrower herein set forth, Lender shall make a revolving credit loan ("Loan") to Borrower, provided that the aggregate principal amount of all Loans at any onte time outstanding to the Borrower shall not exceed the sum of ONE MILLION ($1,000,000.00) DOLLARS. Within such limits of amount, and subject to the other provisions of this Agreement, the Borrower may borrow, repay, and reborrow pursuant to this Section 1. The proceeds of the Loan shall only be used for the development of the Facilities pursuant to the Land Contracts. At any time when Borrower wishes to burrow any amounts unde the Loan. Borrower will notify Lender of the amount requested and the proposed use of the proceeds, and, subject to Lenders's approval, Lender will use its best efforts to remit the amount requested to borrower with five (5) business days of the request."

2. Except as expressly amended hereby, the Revolving Credit and Security Agreement shall remain unchanged in all respects and shall continue in full

force and effect.

IN WITNESS WHEREOF, the undersigned have executed this First Amendment on the date first above written.

BORROWER:	LENDER:
THE HOMESTEAD COMPANY, L.C.	INTEGRATED HEALTH SERVICES RETIREMENT MANAGEMENT, INC.
By: /s/ Jack West	By: /s/ Edward Komp
Name: Jack West	Name: Edward J. Komp
Title: CEO	Title: Executive Vice President

INDEMNIFICATION AGREEMENT

Indemnification Agreement, dated as of this 15th day of August, 1996, by and between Integrated Health Services, Inc., a Delaware corporation ("IHS"), and Integrated Living Communities, Inc., a Delaware corporation ("ILC").

W I T N E S S E T H :

WHEREAS, ILC is a wholly-owned subsidiary of IHS formed in November 1995 to operate the assisted living and other senior housing facilities owned, leased and managed by IHS;

WHEREAS, IHS had entered into negotiations and an agreement in principle to acquire The Standish Care Company ("Standish") (the "Standish Negotiations");

WHEREAS, IHS had entered into discussions with Oak Care, L.L.C. ("Oak Care") relating to the possible engagement of Oak Care to develop, on behalf of IHS and ILC, 15-20 assisted living projects in Arizona, Colorado and Nevada (the "Oak Care Negotiations");

WHEREAS, IHS subsequently determined not to pursue the transactions contemplated by the Standish Negotiations and the Oak Care Negotiations;

WHEREAS, Standish has indicated to IHS that it believes IHS and/or its affiliates, including ILC, has, any liability to Standish as a result of the termination of the Standish Negotiations;

WHEREAS, Oak Care has indicated to IHS that it believes IHS and/or its affiliates, including ILC, has, any liability to Oak Care as a result of the termination of the Oak Care Negotiations;

WHEREAS, IHS believes that it does not have, and none of its affiliates, including ILC, has liability to Standish as a result of the Standish Negotiations or to Oak Care as a result of the Oak Care Negotiations; and

WHEREAS, IHS has agreed, at ILC's request, to indemnify and hold ILC harmless from and against any and all liabilities arising out of the Standish Negotiations and the Oak Care Negotiations.

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements of the parties as set forth herein and other good and

valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. IHS shall indemnify ILC and hold ILC harmless from and against any and all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses and fees, including court costs and reasonable attorneys' fees and expenses, (collectively "Liabilities") incurred or suffered by ILC arising out of, based upon or resulting from the Standish Negotiations or the Oak Care Negotiations.

2. (a) In the event ILC becomes aware of any action by Standish or Oak Care, or any of their respective successors and assigns (such action being referred to as a "Third Party Claim"), with respect to any matter which may give rise to a claim by ILC for indemnification against IHS under this Agreement, then the ILC shall promptly notify IHS thereof in writing; provided, however, that no delay on the part of ILC in notifying IHS shall relieve IHS from any obligation hereunder unless (and then solely to the extent) IHS thereby is prejudiced.

(b) IHS will have the right to defend ILC against the Third Party Claim with counsel of its choice reasonably satisfactory to ILC so long as (i) IHS notifies ILC in writing within fifteen (15) days after ILC has given notice of the Third Party Claim that IHS will indemnify ILC from and against the entirety of any Liabilities ILC may suffer resulting from, arising out of, relating to, in the nature of or caused by the Third Party Claim, (ii) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (iii) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of ILC, likely to establish a precedential custom or practice adverse to the continuing business interests of ILC, and (iv) IHS conducts the defense of the Third Party Claim actively and diligently.

(c) So long as IHS is conducting the defense of the Third Party Claim in accordance with clause (b) above, (i) ILC may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (ii) ILC will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of IHS (not to be withheld, delayed or conditioned unreasonably), and (iii) IHS will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of ILC (not to be withheld, delayed or conditioned unreasonably).

(d) In the event any of the conditions in clause (b) above is or becomes unsatisfied, however, or in the event the named parties to any Third Party Claim (including any impleaded parties) include both IHS and ILC and IHS and ILC shall have been advised by counsel that representation of IHS and ILC by the same counsel would be inappropriate under applicable standards of professional conduct due to actual

or potential differing interests between them, then (i) ILC may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it reasonably may deem appropriate (and ILC need not consult with, or obtain any consent from, IHS in connection therewith), (ii) IHS will reimburse ILC promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (iii) IHS will remain responsible for any Liabilities ILC may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this Agreement.

3. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties hereto.

4. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof, and controls and supersedes any prior understandings, agreements or representations by or between the parties, written or oral, which conflicts with, or may have related to, the subject matter hereof or thereof in any way.

5. All notices or other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or sent by telex, telefax or telegraphic communication, by recognized overnight courier marked for overnight delivery, or by registered or certified mail, postage prepaid, addressed (a) if to IHS, at 10065 Red Run Boulevard, Owings Mills, Maryland 21117, Attention: Chief Executive Officer and (b) if to ILC, at Bernwood Centre, 24850 Old 41 Road, Bonita Springs, Florida 34135, Attention: Chief Executive Officer; or such other addresses as shall be furnished by like notice by such party. All such notices and communications shall, when telexed (provided the correct answerback has been received) or telefaxed (immediately thereafter confirmed by telephone) or telegraphed, be effective when telexed, telefaxed or delivered to the telegraph company, respectively, or if sent by

nationally recognized overnight courier service, be effective one business day after the same has been delivered to such courier service marked for overnight delivery, or, if mailed, be effective five days after being mailed by registered or certified mail, return receipt requested, postage prepaid.

6. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without reference to or application of any conflicts of laws principles.

7. Whenever possible, each provision of this Agreement shall be interpreted in such manner so as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality

or unenforceability shall not affect any other provision of this Agreement. If any provision contained in this Agreement is determined to be invalid, illegal or unenforceable as written, a court of competent jurisdiction shall, at any party's request, reform the terms of this Agreement to the extent necessary to cause such otherwise invalid provisions to be enforceable under applicable law.

8. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day, month and year first written above.

INTEGRATED HEALTH SERVICES, INC.

By:/s/ Marshall A. Elkins

Name: Marshall A. Elkins
Title: Executive Vice President and General Counsel

INTEGRATED LIVING COMMUNITIES, INC.

By: /s/ Edward J. Komp

Name: Edward J. Komp
Title: President

ANCILLARY SERVICES AGREEMENT

THIS ANCILLARY SERVICES AGREEMENT (this "Agreement") is made and entered into as of (although not necessarily on) June 3, 1996 by and among INTEGRATED LIVING COMMUNITIES, INC. a Delaware corporation ("Company"), INTEGRATED HEALTH SERVICES, INC., a Delaware corporation ("IHS"), and AGUIRRE, INC., a Texas Corporation ("Developer").

WHEREAS, the parties hereto have entered into that certain Development Services Agreement of even date herewith; and

WHEREAS, the parties desire to further memorialize agreements regarding the provision of certain services and the guarantee of payment thereof;

Now, therefore, for good and valuable consideration of the mutual covenants contained herein and in the Development Services Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Company, IHS and Developer hereby agree as follows:

1. Developer has anticipated costs and expenses to be paid to Developer pursuant to the Development Services Agreement. These costs and expenses are ancillary to those contained in Section 6 (A) and Exhibit B of the Development Services Agreement. The following costs and expenses are to be paid by Company to Developer contemporaneously upon execution of this Agreement and the Development Services Agreement:

A.	Prototype Design Fee for services as more fully described in section (a) of the Development Services Agreement; and	$501,000.00
B.	Fees for Legal Services	$160,000.00
	TOTAL	$661,000.00

2. By signature below, to induce Developer to enter this Agreement and the Development Services Agreement with the Company, IHS hereby unconditionally guarantees to Developer the payment of the fees referenced in Section 1 above.

3. As a material inducement for the entry into this Agreement and the Development Services Agreement, the Company and IHS hereby represent and warrant to Developer as follows:

a. That the Company and IHS each possess full and complete authority to enter into this Agreement and when executed and delivered this Agreement will constitute valid and binding obligations of each enforceable in accordance with its terms;

b. That the existence of this Agreement and the terms contained herein shall, to the extent required by law, be recorded in all disclosure materials necessary for compliance with all applicable state and federal securities laws;

c. That the entry by the Company and IHS into this Agreement is not in violation of any agreement, instrument or applicable law nor will the entry into this Agreement cause a default in any Agreement to which either is a party.

COMPANY:

EXECUTED on June 7, 1996

INTEGRATED LIVING COMMUNITIES, INC.
a Delaware corporation

By: /s/ Edward J. Komp

Edward J. Komp,
President and Chief Executive Officer

IHS:

INTEGRATED HEALTH SERVICES, INC.

By: /s/ Edward J. Komp

Edward J. Komp,

Executive Vice President

DEVELOPER:

EXECUTED on June 7, 1996.

AGUIRRE, INC.,
a Texas corporation

By: /s/ Earl Dedman

C. Earl Dedman,
Executive Vice President

EXHIBIT 21

INTEGRATED LIVING COMMUNITIES, INC.
SUBSIDIARIES

<TABLE>
<CAPTION>

Company	State of Incorporation	Name Under Which Subsidiary Does Business
<S>	<C>	<C>
Integrated Living Communities Retirement Managment, Inc. ...	Delaware	*
Integrated Living Communities of Maryland (Denton), Inc. ...	Delaware	The Homestead
Integrated Management-Carrington Pointe, Inc.....	Delaware	Carrington Pointe
Integrated Living Communities of Colorado Springs, Inc.	Delaware	*
Integrated Living Communities of Bradenton, Inc.	Delaware	*
Integrated Living Communities of Sarasota, Inc.....	Florida	Waterside Retirement Estates
Integrated Living Communities of West Palm Beach, Inc.	Delaware	*
Integrated Living Communities of Dallas, Inc.....	Delaware	*
Integrated Living Communities of Denton (Texas), Inc.	Delaware	*
Integrated Living Communities at Wichita, Inc.....	Delaware	*
Integrated Living Communities at Garden City, Inc.	Delaware	*
Integrated Living Communities at Terrace Gardens, Inc.	Delaware	*
Integrated Living Communities at Cabot Pointe, Inc.	Delaware	Cabot Pointe
Integrated Living Communities at Beth Avot, Inc.....	Delaware	
Integrated Living Communities of Kearney, Inc.....	Delaware	
Integrated Living Communities of Grand Island, Inc.....	Delaware	
Integrated Living Communities of Hastings, Inc.....	Delaware	
Integrated Living Communities of Norfolk, Inc.....	Delaware	
Integrated Living Communities of Columbus, Inc.....	Delaware	
Integrated Living Communities of Fremont, Inc.....	Delaware	
Integrated Living Communities of Manhattan, Inc.....	Delaware	

</TABLE>

* Subsidiary does business under its corporate name

EXHIBIT 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Integrated Living Communities, Inc.:

We consent to the use of our reports included herein and to the reference to our firm under the heading "Experts" in the prospectus.

Our report on the consolidated financial statements of Integrated Living Communities, Inc. and subsidiaries dated June 5, 1996 refers to the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of".

/s/ KPMG Peat Marwick LLP

Baltimore, Maryland
August 23, 1996

EXHIBIT 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the use in Amendment No. 2 to Registration Statement No. 333-05877 of Integrated Living Communities, Inc. on Form S-1 of our report dated May 15, 1995, on the financial statements of F.I.C. Lakehouse Inc., Don Blivas, Janice Blivas, Fred Fiala, and John Rowe d/b/a Lakehouse East (a Partnership), appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Tampa, Florida

August 23, 1996