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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re)	
)	Chapter 11
)	
INTEGRATED HEALTH SERVICES, INC., <u>et al.</u> ,)	Case Nos. 00 – 389 (MFW)
)	
Debtors.)	Jointly Administered
)	

FORTIETH INTERIM AND FINAL APPLICATION OF KPMG LLP AS RESTRUCTURING CONSULTANTS, AUDITORS, AND ACCOUNTANTS TO THE DEBTORS AND DEBTORS IN POSSESSION FOR INTERIM ALLOWANCE OF COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM MAY 1, 2003 THROUGH MAY 12, 2003 AND FOR FINAL ALLOWANCE OF COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR THE PERIOD FROM FEBRUARY 2, 2000 THROUGH MAY 12, 2003.

1. KPMG LLP (“KPMG”) respectfully files this Fortieth Application (the “Application”) for Interim Allowance of Fees and Expenses of KPMG as Accountants, Tax Advisors and Consultants to Integrated Health Services, Inc., et al. (the “Debtors”) for the period from May 1, 2003 through May 12, 2003 (the “Fortieth Interim Period”) and for Final Allowance of Fees and Expenses of KPMG as Accountants, Tax Advisors and Consultants to Integrated Health Services, Inc., et al. (the “Debtors”) for the period from February 2, 2000 through May 12, 2003 (the “Final Period”). This Application is filed pursuant to §§330 and 331 of Title 11 of the United States Code (the “Bankruptcy Code”) and Rule 2016(a) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”). In support of the Application, KPMG states:

INTRODUCTION

2 This Application is made for the Fortieth interim allowance of compensation for services rendered as accountants, tax advisors and consultants to the Debtors during the Fortieth Interim Period in the amount of \$21,601 for 69.4 hours of services rendered by professionals. KPMG seeks reimbursement in the amount of \$294 incurred for actual and necessary expenses. Attached as Exhibit A is a fee application summary sheet as required by the Executive Office of the U.S. Trustee's Guidelines (the "Guidelines") dated March 22, 1995, as amended January 30, 1996.

3 On February 2, 2000, (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the Bankruptcy Courts for the District of Delaware. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee or examiner has been appointed in the Debtors' Chapter 11 cases.

4 IHS, a publicly traded Delaware corporation, is principally a holding company. IHS, through its debtor and non-debtor subsidiaries and affiliates, is one of the nation's leading providers of post-acute and related specialty healthcare services and products in the United States, with over 1,450 service locations in 47 states and the District of Columbia. Post-acute care is the provision of a continuum of care to patients following discharge from an acute care hospital. IHS' post-acute care network is designed to address the fact that the cost containment measures implemented by private insurers and managed care organizations and limitations on government reimbursement of hospital costs have resulted in the discharge from hospitals of many patients who continue to require medical and rehabilitative care. IHS' post-acute healthcare system is intended to provide cost-effective continuity of care for its patients and enable payors to contract with one provider to provide all of a patient's needs following discharge from acute care hospitals. The Debtors operate through two principal business segments: (i) skilled nursing and sub-acute care facilities and (ii) contract rehabilitation and other contract services.

5. On February 2, 2000, the Debtors filed an application (the "Employment Application") for authorization to employ KPMG as its accountants, tax advisors and consultants. On March 7, 2000, this Court issued an order (the "Employment Order") authorizing the employment of KPMG. The Employment Application and Employment Order, respectively, state the terms and conditions of KPMG's employment and are incorporated herein by reference.

6. KPMG is a firm of accountants and financial advisors with diverse experience and extensive knowledge in the fields of accounting, taxation and bankruptcy. The Debtors require assistance in collecting, analyzing and presenting accounting, financial and other information in relation to the restructuring and Chapter 11 proceedings. KPMG has considerable experience with rendering such services to debtors and other parties in numerous Chapter 11 cases. As such, KPMG is well qualified to perform the consulting work required in these Cases. Additionally, KPMG has served in the past and continues to serve as accountants and tax advisors to the Debtors. By virtue of its prior engagement, KPMG is familiar with the books, records, financial information and other data maintained by the Debtors. As such, KPMG is well qualified to continue to provide accounting and tax advisory services to the Debtors.

FEES AND EXPENSES INCURRED DURING THE PERIOD FROM MAY 1, 2003 THROUGH
MAY 12, 2003

7. Pursuant to the Administrative Orders establishing the procedures for interim compensation and reimbursement of expenses of professionals, all professionals retained in these Cases are authorized to seek, on a monthly basis, interim compensation for professional services rendered and reimbursement of expenses incurred. If no objections to the interim fee application are filed, the Debtors may pay up to 80% of the professional fees requested and 100% of the expenses incurred. A quarterly hearing will be scheduled to request approval for payment of the remaining 20% of professional fees. KPMG submits this fee application (the "Fortieth Interim Fee Application") for the period May 1, 2003 through May 12, 2003. This is KPMG's Fortieth interim fee application.

8. Attached as Exhibit A hereto are the names, titles, hourly rates, and a summary of hours charged for the professionals whose services are being billed in connection with this case. Attached as Exhibit B hereto is a summary schedule of hours incurred for each category of services. Attached as Exhibit C hereto is a summary schedule of fees incurred for each category of services. Attached as Exhibit D hereto is a summary schedule of actual and necessary expenses incurred during the Fortieth Interim Period.

9. Attached as Exhibits E1 through E5 hereto are the detailed daily descriptions of services rendered by each professional and billed to the estate during the Fortieth Interim Period, including the hours necessarily incurred with respect to each task and the resultant fees. These descriptions are separated into the following matters:

Accounting and Auditing Services

E1 Audit Related Services

Other

E2 Fee Applications and Billing

Tax Services

E3 Business/Transaction Tax Issues

E4 Income Tax Return Preparation

E5 Tax Consulting

10. The fees and expenses sought by KPMG, except to the extent prohibited by the Guidelines, are billed at rates and in accordance with practices customarily employed by KPMG and generally accepted by KPMG's clients.

SUMMARY OF SERVICES PROVIDED

11. All professional services for which an allowance is requested were performed by KPMG for and on behalf of the Debtors or their counsel and not on behalf of any other entity or party-in-interest. Set forth below is a summary of certain of the professional services rendered by KPMG during the Fortieth Interim Period. The full scope of and breadth of KPMG's services are reflected in the detailed time records attached hereto as Exhibit E.

Accounting and Auditing Services

- Performance of procedures necessary in rendering an agreed upon procedures letter.

Tax Services

- Compliance with federal, state, and local authorities' income tax filing requirements and preparation of tax returns in accordance therewith.
- Respond to Internal Revenue Service, State, and Local authorities' notices. Review applicable documentation and respond to Internal Revenue Service, State, and Local tax audit matters.
- Consultations and assistance with client regarding intangible asset basis.

Case Administration and Employment/Fee Applications

- Preparation of monthly fee statements and support summaries and exhibits for fee application purposes.

12. Preparation of employment and fee applications and the accompanying disclosures required in bankruptcy proceedings is outside of the normal procedures performed by KPMG with respect to its client retention and billing practices. In compliance with the Administrative Order and other guidelines

governing the payment of professionals in these Cases, KPMG prepared detailed monthly invoices and fee summaries.

OTHER REPORTING REQUIREMENTS

13. There is no agreement or understanding between KPMG and any other person, other than the partners of the firm, for the sharing of compensation received or to be received for services rendered in connection with these proceedings.

14. KPMG respectfully requests a Fortieth interim award of fees as shown below:

<u>For the Period Ended May 12, 2003</u>	<u>Amount</u>
Professional Fees	\$21,601
Out-of-Pocket Expenses	\$ 294
May 2003 Fees and Expenses	\$21,895

KPMG respectfully requests a Final award of fees as shown below:

<u>For the Period from February 2, 2000 to May 12, 2003</u>	<u>Amount</u>
Professional Fees	\$17,232,501
Out-of-Pocket Expenses	\$ 558,950
Final Fees and Expenses	\$17,791,001

15. Pursuant to the (Administrative Order Pursuant To Sections 105(a), 330(a) and 503(b)(2) Of The Bankruptcy Code, Rule 9006 (b)(1) Of The Federal Rules Of Bankruptcy Procedure And Local Rule 9006-2 Establishing Revised Procedures For The Submission Of Final Applications For Allowance Of Compensation And Reimbursement Of Expenses Of Professionals Under The Rotech Debtors' Second Amended Joint Plan Of Reorganization; [Docket 7397] signed on May 29, 2002, the deadline to file final fee applications with respect to the Rotech Debtors was extended until the date final fee applications would become due with respect to the IHS Debtors. This application therefore requests compensation for service performed in connection with all of the IHS Debtors as well as the Rotech Debtors.

Dated: July 31, 2003

Respectfully submitted,

A handwritten signature in cursive script, reading "Stephen B. Darr". The signature is written in black ink and is positioned above a thin horizontal line.

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EXHIBIT A

**FEE APPLICATION SUMMARY SHEET
INTEGRATED HEALTH SERVICES, INC., et al.,
Summary Sheet**

In re: INTEGRATED HEALTH SERVICES, INC., et al., Debtor	IN PROCEEDINGS UNDER CHAPTER 11 Case No. 00 – 389 (MFW) (Jointly Administered)	Fees Previously Requested: \$ 17,232,051 Fees Previously Awarded: \$ 15,752,806 Expenses Previously Requested: \$ 558,950 Expenses Previously Awarded: \$ 542,131 CURRENT APPLICATION: Fees Requested \$ 21,601 Expenses Requested \$ 294 <hr/> <hr/> \$ 21,895	NAME OF APPLICANT: KPMG LLP ROLE IN THE CASE: Accountants for Debtor in Possession
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PROFESSIONALS				
<u>Employee Name</u>	<u>Position</u>	<u>Current Hours Billed</u>	<u>Rate</u>	<u>Fees Billed in Application</u>
Barton, Alan D.	Partner	0.5	\$ 600	\$ 300
Darrah, Diane	Senior Manager	1.5	\$ 440	\$ 660
Gonzales, Robert	Senior Manager	10.0	\$ 475	\$ 4,750
Hudson, Frederick	Partner	1.5	\$ 400	\$ 600
Irwin, Kevin	Senior Manager	8.5	\$ 375	\$ 3,188
Love, Jody	Senior Manager	22.0	\$ 300	\$ 6,600
Marriner, Rachael	Senior Accountant	16.0	\$ 200	\$ 3,200
Martin, Scott	Senior Consultant	4.0	\$ 275	\$ 1,100
Palank, Gary	Staff Consultant	4.9	\$ 220	\$ 1,078
Pekula, Christopher	Senior Consultant	0.5	\$ 250	\$ 125
Totals:		<hr/> <hr/> 69.4		<hr/> <hr/> \$ 21,601
Total Hourly Blended Rate:		311.2		

EXHIBIT B

INTEGRATED HEALTH SERVICES, INC., et al.
Summary of Hours Incurred by Category
May 1, 2003 to May 12, 2003

<u>Exhibit</u>	<u>Category</u>	<u>May Hours</u>
E1	Audit Related Services	33.5
E2	Fee Applications and Billing	6.0
E3	Business/Transaction Tax Issues	0.5
E4	Income Tax Return Preparation	13.9
E5	Tax Consulting	15.5
	Total Hours	<u>69.4</u>

EXHIBIT C

INTEGRATED HEALTH SERVICES, INC., et al.
Summary of Fees Incurred by Category
May 1, 2003 to May 12, 2003

<u>Exhibit</u>	<u>Category</u>	<u>May Fees</u>
E1	Audit Related Services	\$ 8,600
E2	Fee Applications and Billing	1,800
E3	Business/Transaction Tax Issues	300
E4	Income Tax Return Preparation	4,391
E5	Tax Consulting	6,510
	Total Fees	<u>21,601</u>

EXHIBIT D

INTEGRATED HEALTH SERVICES, INC., et al.
Summary of Expenses
May 1, 2003 to May 12, 2003

<u>Category</u>	<u>Total Expenses</u>
Ground Transportation	\$ 244
Meals	\$ 50
Total Expenses	<u>\$ 294</u>

EXHIBIT E1

INTEGRATED HEALTH SERVICES, INC., et al
 Audit Related Services
 May 1, 2003 to May 12, 2003

<u>Name</u>	<u>Date</u>	<u>Description</u>	<u>Time</u>	<u>Hourly Rate</u>	<u>Amount</u>
Marriner, Rachael	1-May-03	Review a draft of the engagement letter for the Southtrust engagement	0 5	\$ 200	\$ 100
Marriner, Rachael	1-May-03	Review a draft of the Southtrust management representation letter	0 9	\$ 200	\$ 180
Marriner, Rachael	1-May-03	Review a draft of the report for the Southtrust agreed-upon procedures	2 1	\$ 200	\$ 420
Marriner, Rachael	1-May-03	Review the Southtrust agreement and the amendment to the lease	1 9	\$ 200	\$ 380
Marriner, Rachael	1-May-03	Review the revenue, operating expense and equipment rent expense analyticals based on amounts obtained from the 12/31/02 general ledger for the six Southtrust facilities	1 5	\$ 200	\$ 300
Marriner, Rachael	1-May-03	Review the revenue, operating expense and equipment rent expense analyticals based on amounts obtained from the 12/31/01 general ledger for the six Southtrust facilities	0 7	\$ 200	\$ 140
Marriner, Rachael	1-May-03	Review the census days analyticals for the six Southtrust facilities based on the 12/31/02 census summary reports provided by the client	0 4	\$ 200	\$ 80
Hudson, Frederick	8-May-03	Meet with S Nolan (IHS) and B Bennett (IHS) regarding acquisition	1 5	\$ 400	\$ 600
Love, Jody	8-May-03	Analyze the agreed upon procedures letter for procedures performed over the facilities leased with Southtrust	1 2	\$ 300	\$ 360
Love, Jody	8-May-03	Prepare changes to the agreed upon procedures letter for procedures performed over the facilities leased with Southtrust	1 6	\$ 300	\$ 480
Love, Jody	8-May-03	Review the combined income statement of the six facilities	0 8	\$ 300	\$ 240
Love, Jody	9-May-03	Analyze the rent kicker calculation	1 3	\$ 300	\$ 390
Love, Jody	9-May-03	Discuss the rent kicker calculation with J Stephan (IHS)	1 1	\$ 300	\$ 330
Love, Jody	9-May-03	Analyze the analytical procedures for each of the six facilities	1 4	\$ 300	\$ 420
Love, Jody	9-May-03	Analyze the combined analytical procedures	1 3	\$ 300	\$ 390
Love, Jody	9-May-03	Analyze the search for unrecorded liabilities memorandum	1 2	\$ 300	\$ 360
Marriner, Rachael	9-May-03	Review the census days analyticals for the six Southtrust facilities based on the 12/31/01 census summary reports provided by the client	0 8	\$ 200	\$ 160
Marriner, Rachael	9-May-03	Review the central office cost expense analytical based on the 12/31/02 general ledger for each of the six Southtrust facilities	0 7	\$ 200	\$ 140
Marriner, Rachael	9-May-03	Review the central office cost expense analytical based on the 12/31/01 general ledger for each of the six Southtrust facilities	0 7	\$ 200	\$ 140
Marriner, Rachael	9-May-03	Review the depreciation expense analytical based on the 12/31/02 general ledger for each of the six Southtrust facilities	0 8	\$ 200	\$ 160
Marriner, Rachael	9-May-03	Review the depreciation expense analytical based on the 12/31/01 general ledger for each of the six Southtrust facilities	1 1	\$ 200	\$ 220

EXHIBIT E1

INTEGRATED HEALTH SERVICES, INC., et al.
 Audit Related Services
 May 1, 2003 to May 12, 2003

<u>Name</u>	<u>Date</u>	<u>Description</u>	<u>Time</u>	<u>Hourly Rate</u>	<u>Amount</u>
Marriner, Rachael	9-May-03	Review the interest expense analytical based on the 12/31/02 and 12/31/01 general ledgers for each of the six Southtrust facilities	0 8	\$ 200	\$ 160
Marriner, Rachael	9-May-03	Review the total rent expense workpaper based on the 12/31/02 and 12/31/01 general ledgers for each of the six Southtrust facilities	0 7	\$ 200	\$ 140
Marriner, Rachael	9-May-03	Review the 12/31/02 combined income statement of the six Southtrust facilities and agree it to the supporting workpapers.	1 1	\$ 200	\$ 220
Marriner, Rachael	9-May-03	Review the 12/31/01 combined income statement of the six Southtrust facilities and agree it to the supporting workpapers	0 8	\$ 200	\$ 160
Marriner, Rachael	9-May-03	Review a list of questions for the client related to trends identified from the analyticals for Southtrust.	0 5	\$ 200	\$ 100
Love, Jody	12-May-03	Prepare a list of review questions related to the procedures performed over the rent kicker calculation	1 5	\$ 300	\$ 450
Love, Jody	12-May-03	Analyze the updated analytical workpapers and combined income statement.	1 4	\$ 300	\$ 420
Love, Jody	12-May-03	Discuss the agreed upon procedures letter with S Nolan (HHS).	1 2	\$ 300	\$ 360
Love, Jody	12-May-03	Prepare changes to the agreed upon procedures letter	1 3	\$ 300	\$ 390
Love, Jody	12-May-03	Obtain the signed management representation letter for the agreed upon procedures performed over the six facilities leased with Southtrust	0 7	\$ 300	\$ 210
			<u>33.5</u>		<u>\$ 8,600</u>

EXHIBIT E2

INTEGRATED HEALTH SERVICES, INC., et al
Fee Applications and Billing
May 1, 2003 to May 12, 2003

<u>Name</u>	<u>Date</u>	<u>Description</u>	<u>Time</u>	<u>Hourly Rate</u>	<u>Amount</u>
Love, Jody	12-May-03	Analyze the February 2003 time detail	1.7	\$ 300	\$ 510
Love, Jody	12-May-03	Prepare changes to the February 2003 time detail	1.3	\$ 300	\$ 390
Love, Jody	14-May-03	Analyze the March 2003 time detail	1.8	\$ 300	\$ 540
Love, Jody	14-May-03	Prepare changes to the March 2003 time detail	1.2	\$ 300	\$ 360
			<u>6.0</u>		<u>\$ 1,800</u>

EXHIBIT E3

INTEGRATED HEALTH SERVICES, INC , et al
Business/Transaction Tax Issues
May 1, 2003 to May 12, 2003

<u>Name</u>	<u>Date</u>	<u>Description</u>	<u>Time</u>	<u>Hourly Rate</u>	<u>Amount</u>
Barton, Alan D	2-May-03	Consultation with M Fulchino (IHS) regarding net operating loss carrybacks to 1996	0.5	\$ 600	\$ 300
			<u>0.5</u>		<u>\$ 300</u>

EXHIBIT E4

INTEGRATED HEALTH SERVICES, INC , et al.
Income Tax Return Preparation
May 1, 2003 to May 12, 2003

Name	Date	Description	Time	Hourly Rate	Amount
Irwin, Kevin	1-May-03	Prepare for meeting with J Santarsiero (IHS)	0 5	\$ 375	\$ 188
Irwin, Kevin	1-May-03	Meet with J Santarsiero (IHS) to discuss tax planning objectives	1 2	\$ 375	\$ 450
Irwin, Kevin	1-May-03	Discuss and lay out timeline for tax planning with J Santarsiero (IHS)	0 3	\$ 375	\$ 113
Irwin, Kevin	1-May-03	Review initial income tax assumptions for J Santarsiero (IHS)	0 6	\$ 375	\$ 225
Irwin, Kevin	1-May-03	Review rental real estate analysis with staff	0 4	\$ 375	\$ 150
Irwin, Kevin	1-May-03	Review low income housing credit assumptions with staff	0 5	\$ 375	\$ 188
Irwin, Kevin	1-May-03	Review severance package assumptions with staff	0 5	\$ 375	\$ 188
Pekula, Christopher	1-May-03	Prepare tax return and extension preparation	0 5	\$ 250	\$ 125
Irwin, Kevin	9-May-03	Research low income housing credit rules	1 2	\$ 375	\$ 450
Irwin, Kevin	9-May-03	Review prior years treatment of low income housing entity	0 6	\$ 375	\$ 225
Irwin, Kevin	9-May-03	Outline passive loss rules related to low income housing entity	0 7	\$ 375	\$ 263
Irwin, Kevin	9-May-03	Review scenario of disposing of low income housing entity	0 5	\$ 375	\$ 188
Irwin, Kevin	9-May-03	Meet with G Palank (KPMG) to discuss status of 2002 tax return	0 9	\$ 375	\$ 338
Irwin, Kevin	9-May-03	Meet with G Palank (KPMG) to discuss status of K-1's that we are waiting for from Wealth Management	0 6	\$ 375	\$ 225
Palank, Gary	11-May-03	Meet with K Irwin (KPMG) to discuss status of 2002 tax return	0 9	\$ 220	\$ 198
Palank, Gary	11-May-03	Meet with K Irwin (KPMG) to discuss status of K-1's that we are waiting for from Wealth Management	0 6	\$ 220	\$ 132
Palank, Gary	12-May-03	Place phone calls to Wealth Management to find the status of the K-1's that we are waiting for to complete 2002 tax return	0 5	\$ 220	\$ 110
Palank, Gary	12-May-03	Print and review state tax returns for J Heller's (IHS) individual income tax returns	0 6	\$ 220	\$ 132
Palank, Gary	12-May-03	Complete federal 2002 tax return for Biddle Trust	0 4	\$ 220	\$ 88
Palank, Gary	12-May-03	Complete state 2002 tax returns for Biddle Trust	1 1	\$ 220	\$ 242
Palank, Gary	12-May-03	Print and review federal and state 2002 tax returns for Biddle Trust	0 8	\$ 220	\$ 176
			<u>13.9</u>		<u>\$ 4,391</u>

EXHIBIT E5

INTEGRATED HEALTH SERVICES, INC , et al.

Tax Consulting

May 1, 2003 to May 12, 2003

<u>Name</u>	<u>Date</u>	<u>Description</u>	<u>Time</u>	<u>Hourly Rate</u>	<u>Amount</u>
Gonzales, Robert	1-May-03	Research related to 337(d)-2T election related to loss on sale of subsidiary stock	3.2	\$ 475	\$ 1,425
Gonzales, Robert	2-May-03	Research related to 1502-20 temporary regulations	3.1	\$ 475	\$ 1,425
Darrah, Diane	5-May-03	Review the status of provisions and scheduling of tax work	1.5	\$ 440	\$ 660
Martin, Scott	6-May-03	Prepare schedules showing net operating losses remaining at the IHS subgroup for the 2001 tax year	1.9	\$ 275	\$ 523
Martin, Scott	6-May-03	Prepare schedules showing IHS subgroup net operating losses as utilized by the consolidated group during the 2002 tax year	2.1	\$ 275	\$ 578
Gonzales, Robert	7-May-03	Prepare 1 337(d)-2T election statement	3.7	\$ 475	\$ 1,900
			<u>15.5</u>		<u>\$ 6,510</u>

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re) Chapter 11
)
INTEGRATED HEALTH SERVICES, INC., et al.,) Case No. 00 -389 (MFW)
)
Debtors.) Jointly Administered

AFFIDAVIT OF SERVICE

STATE OF DELAWARE)
) SS
NEW CASTLE COUNTY)

Thomas Hartzell, being duly sworn according to law, deposes and says that he is employed by the law firm of Young Conaway Stargatt & Taylor, LLP, attorneys for the Debtors in the within captioned matter, and that on the 12th day of August 2003, he caused a copy of the attached pleading to be served, as indicated, on the parties on the attached service list.


Thomas Hartzell

SWORN TO AND SUBSCRIBED before me this 12th day of August 2003.



Notary Public **KIMBERLY A. BECK**
NOTARY PUBLIC

STATE OF DELAWARE

My commission expires Oct. 1, 2006

CORE GROUP SERVICE LIST
Integrated Health Services, Inc.
8/12/2003

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