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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

[X]Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1997

OR

[ ]Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER: 1-10989

VENCOR, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	61-1055020
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3300 AEGON CENTER 400 WEST MARKET STREET LOUISVILLE, KENTUCKY	40202
(Address of principal executive offices)	(Zip Code)

(502) 596-7300
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.25 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ((S)229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. [X]

As of February 27, 1998, there were 67,468,848 shares of the Registrant's Common Stock, $.25 par value, outstanding. The aggregate market value of the shares of the Registrant held by non-affiliates of the Registrant, based on the closing price of such stock on the New York Stock Exchange on February 27, 1998, was approximately $1,820,047,000. For purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 23, 1998 are incorporated by reference into Part III of this Form 10-K.

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TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

GENERAL

Vencor, Inc. ("Vencor" or the "Company") is one of the largest providers of long-term healthcare services in the United States. At December 31, 1997, the Company's operations included 60 long-term acute care hospitals containing 5,273 licensed beds, 309 nursing centers containing 40,383 licensed beds, and the Vencare contract services business which provides respiratory and rehabilitation therapies and medical and pharmacy management services to approximately 2,900 healthcare facilities. The Company currently operates in 46 states. Healthcare services provided through this network include long-term

hospital care, nursing care, contract respiratory therapy services, subacute and post-operative care, in-patient and out-patient rehabilitation therapy, specialized care for Alzheimer's disease, hospice care, home healthcare and pharmacy services. The Company also continues to develop VenTouch(TM), a comprehensive paperless clinical information system designed to increase the operating efficiencies of the Company's facilities.

The Company was incorporated in Kentucky in 1983 as Vencare, Inc. and commenced operations in 1985. It was reorganized as a Delaware corporation in 1987 and changed its name to Vencor, Incorporated in 1989 and to Vencor, Inc. in 1993. On September 28, 1995, The Hillhaven Corporation ("Hillhaven") merged with and into the Company (the "Hillhaven Merger"). On March 21, 1997, the Company acquired TheraTx, Incorporated ("TheraTx"), a provider of subacute rehabilitation and respiratory therapy program management services to nursing centers and an operator of 26 nursing centers. On June 24, 1997, the Company acquired Transitional Hospitals Corporation ("Transitional"), an operator of 16 long-term acute care hospitals and three satellite facilities located in 13 states.

In January 1998, the Board of Directors authorized management to proceed with a plan to separate the Company into two publicly held corporations, one to operate the hospital, nursing center and Vencare businesses ("Operating Company") and the other to own substantially all of the real property of the Company ("Realty Company") and to lease such real property to Operating Company (the "Reorganization Transactions"). Realty Company intends to become a real estate investment trust for Federal income tax purposes beginning January 1, 1999. The Reorganization Transactions will be effected through the issuance to the Company's common stockholders of all of the outstanding shares of Operating Company (the "Distribution"). Following the Distribution, Realty Company will be named VenTrust, Inc. and Operating Company will assume the name of Vencor, Inc. The Reorganization Transactions and the Distribution are contingent upon, among other things, stockholder approval, regulatory and other approvals, tax considerations and the consummation of a capitalization plan for each entity. The Company filed a preliminary proxy statement concerning the Reorganization Transactions and the Distribution with the Securities and Exchange Commission on January 30, 1998. Management anticipates that the Reorganization Transactions and Distribution will be completed in the second quarter of 1998.

BUSINESS STRATEGY

The Company believes that the demand for long-term care is increasing. Improved medical care and advances in medical technology continue to increase the survival rates for victims of disease and trauma. Many of these patients never fully recover and require long-term care. The incidence of chronic medical complications increases with age, particularly in connection with certain degenerative conditions. As the average age of the United States population increases, the Company believes that there will be an increase in the demand for long-term care at all levels of the continuum of care.

At the same time, the healthcare system of the United States is experiencing a period of significant change. Factors affecting the healthcare system include cost containment, the expansion of managed care, improved medical technology, an increased focus on measurable clinical outcomes and a growing public awareness of healthcare spending by governmental agencies at Federal and state levels. Payors are increasingly requiring providers to move patients from high-acuity care environments to lower-acuity care settings as quickly as is medically appropriate.

The Company's strategy is to continue to develop its full-service integrated network to meet the range of needs of patients requiring long-term care. The Company is continuing to integrate and expand the operations of its long-term acute care hospitals and nursing centers and to develop related healthcare services. The Company provides a full range of clinical expertise, as well as advanced technologies for cost-efficiencies, to accommodate patients at all

levels of long-term care. Key elements of the Company's strategy for providing full-service integrated networks for long-term care are set forth below:

Focus on Long-Term Care Continuum. The factors which affect the selection of long-term care vary by community and include the Company's local competitive position as well as its relationships with local referral sources. Accordingly, the Company focuses its resources on developing integrated networks within each of the local markets it serves. The Company's history of strategic acquisitions and complementary business development initiatives has served to enhance the Company's position as a leader in local and regional markets. In addition, the Company benefits from economies of scale through its strategic focus on the long-term care continuum.

The Company intends to continue expanding its long-term care network and evaluates each acquisition or new market opportunity based on (i) the need for placement of long-term patients or residents, (ii) existing provider referral patterns, (iii) the presence of competitors, (iv) payor mix and (v) the political and regulatory climate. From time to time, the Company may also sell all or a portion of its interest in a business or the operations of a facility where such disposition would be in the best interest of the Company.

Increase Penetration of Specialty Care and Ancillary Services. The Company intends to continue to expand the specialty care programs and ancillary services provided in its nursing centers through its Vencare operations. These services generally produce higher revenues than do routine nursing care services and serve to differentiate the Company's nursing centers from others in a given market. The Company is focusing on the expansion of its subacute, medical and rehabilitation services, including physical, occupational and speech therapies, wound care, oncology treatment, brain injury care, stroke therapy and orthopedic therapy at these facilities.

Vencare provides respiratory therapy and subacute care services pursuant to contracts with nursing centers and other healthcare facilities owned by third parties. The Vencare program also includes rehabilitation therapy services, pharmacy management services, mobile radiology services and hospice care. Vencare enables the Company to provide its services to lower acuity patients in cost-efficient settings.

During 1997, the Company initiated the sale of its Vencare full service ancillary services contracts to provide a full range of services to nursing centers not operated by the Company. Management believes that by bundling services through one provider, nursing centers can provide quality patient care more efficiently with the added benefit of centralizing their medical records. Under the new prospective payment system imposed by the Balanced Budget Act of 1997 (the "Budget Act"), ancillary services provided by nursing centers will be subject to fixed payments. In this new environment, management believes that its full service ancillary services contracts will enhance the ability of nursing center operators to manage effectively the cost of providing quality patient care.

Further Implement Patient Information System. VenTouch(TM) is a software application which allows nurses, physicians and other clinicians to access and manage clinical information utilized in the healthcare delivery process. Among the features of VenTouch(TM) are on-line access and update of an electronic patient chart, on-line trend analysis using electronic flowsheets and graphs, and remote access for authorized users. The system is designed to decrease administrative time, reduce paper and support the delivery of quality patient care. Prior to the acquisition of Transitional, the Company had installed VenTouch(TM) in all of its hospitals. The Company

expects to install VenTouch(TM) in the 19 former Transitional hospitals during 1998. At December 31, 1997, 51 of the Company's nursing centers were utilizing the VenTouch(TM) information system. The Company expects to install

VenTouch(TM) in 40 to 50 of its nursing centers during 1998. In addition, the Company intends to offer VenTouch(TM) in connection with the services offered by Vencare to nursing centers not operated by the Company.

HOSPITAL OPERATIONS

The Company's hospitals primarily provide long-term acute care to medically complex, chronically ill patients. The Company's hospitals have the capability to treat patients who suffer from multiple systemic failures or conditions such as neurological disorders, head injuries, brain stem and spinal cord trauma, cerebral vascular accidents, chemical brain injuries, central nervous system disorders, developmental anomalies and cardiopulmonary disorders. Chronic patients are often dependent on technology for continued life support, such as mechanical ventilators, total parenteral nutrition, respiration or cardiac monitors and dialysis machines. Generally, approximately 60% of the Company's chronic patients are ventilator-dependent for some period of time during their hospitalization. The Company's patients suffer from conditions which require a high level of monitoring and specialized care, yet may not necessitate the continued services of an intensive care unit. Due to their severe medical conditions, the Company's hospital patients generally are not clinically appropriate for admission to a nursing center or rehabilitation hospital. The medical condition of most of the Company's hospital patients is periodically or chronically unstable. By combining general acute care services with the ability to care for chronic patients, the Company believes that its long-term care hospitals provide its patients with high quality, cost-effective care. During 1997, the average length of stay for chronic patients in the long-term care hospitals operated by the Company was approximately 43 days. Although the Company's patients range in age from pediatric to geriatric, typically more than 70% of the Company's chronic patients are over 65 years of age. The Company's hospital operations are subject to regulation by a number of government and private agencies. See "--Governmental Regulation--Hospitals."

HOSPITAL FACILITIES

The following table lists by state the number of hospitals and related licensed beds owned or leased from third parties by the Company as of December 31, 1997:

		NUMBER OF FACILITIES		
STATE	LICENSED BEDS	OWNED	LEASED	TOTAL
Arizona	109	2	-	2
California	635	9	-	9
Colorado	68	1	-	1
Florida(1)	564	6	1	7
Georgia(1)	72	-	1	1
Illinois(1)	613	3	2	5
Indiana	159	2	1	3
Kentucky(1)	374	1	-	1
Louisiana	168	1	-	1
Massachusetts(1)	86	2	-	2
Michigan(1)	400	2	-	2
Minnesota	111	1	-	1
Missouri(1)	227	2	-	2
Nevada	52	1	-	1
New Mexico	61	1	-	1
North Carolina(1)	124	1	-	1
Ohio	94	1	-	1

Oklahoma	59	1	-	1
Pennsylvania	115	2	-	2
Tennessee(1)	49	1	-	1
Texas	663	8	2	10
Virginia(1)	206	1	-	1
Washington(1)	80	1	-	1
Wisconsin	184	2	1	3
			1	
Totals	5,273	52	8	60

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(1) These states have Certificate of Need ("CON") regulations. See "--Governmental Regulation--Hospitals."

SERVICES PROVIDED BY HOSPITALS

Chronic. The Company has devised a comprehensive program of care for its chronic patients that draws upon the talents of interdisciplinary teams, including licensed pulmonary specialists. The teams evaluate chronic patients upon admission to determine treatment programs. Where appropriate, the treatment programs may involve the services of several disciplines, such as pulmonary and physical therapy. Individual attention to patients who have the cognitive and physical abilities to respond to therapy is emphasized. Patients who successfully complete treatment programs are discharged to nursing centers, rehabilitation hospitals or home care settings.

General Acute Care. The Company operates two general acute care hospitals. Certain of the Company's long-term care hospitals also provide general acute care and outpatient services in support of their long-term care services. Certain of the Company's hospitals maintain subacute units. General acute care and outpatient services may include inpatient services, diagnostic services, emergency services, CT scanning, one-day surgery, hospice services, laboratory, X-ray, respiratory therapy, cardiology and physical therapy. The Company may expand its general acute care and outpatient services.

Major factors contributing to the growth in demand for the Company's intensive care hospital services include the following:

Increased Patient Population. Improved medical care and advancements in medical technology have increased the survival rates for infants born with severe medical problems, as well as victims of disease and trauma of all ages. Many of these patients never fully recover and require long-term hospital care. The incidence of chronic respiratory problems increases with age, particularly in connection with certain degenerative conditions. As the average age of the United States population increases, the Company believes there will be an increase in the need for long-term hospital care.

Medically Displaced Patients. The Company's hospital patients require a high level of monitoring and specialized care, yet may not require the continued services of an intensive care unit. Due to their extended recovery period, the Company's hospital patients generally would not receive specialized multi-disciplinary treatment focused on the unique aspects of a long-term recovery program in a general acute care hospital, and yet are not appropriate for admission to a nursing center or rehabilitation hospital.

Economically Displaced Patients. Historically, reimbursement policies and practices designed to control healthcare costs have made it difficult to place medically complex, chronically ill patients in an appropriate healthcare setting. Under the Medicare program, general acute care hospitals are reimbursed under the prospective payment system ("PPS"), a fixed payment system which provides an economic incentive to general acute care hospitals to

minimize the length of patient stay. As a result, these hospitals generally receive less than full cost for providing care to patients with extended lengths of stay. Furthermore, PPS does not provide for reimbursement more frequently than once every 60 days, placing an additional economic burden on a general acute care hospital providing long-term care. The Company's long-term care hospitals, however, are excluded from PPS and generally receive reimbursement on a more favorable basis for providing long-term hospital care to Medicare patients. Commercial reimbursement sources, such as insurance companies and health maintenance organizations ("HMOs"), some of which pay based on established hospital charges, typically seek the most economical source of care available. The Company believes that its emphasis on long-term hospital care allows it to provide high quality care to chronic patients on a cost-effective basis.

HOSPITAL PATIENT ADMISSION

Substantially all of the acute and medically complex patients admitted to the Company's hospitals are transfers from other healthcare providers. Patients are referred from general acute care hospitals, rehabilitation hospitals, nursing centers and home care settings. Referral sources include discharge planners, case managers of managed care plans, social workers, physicians, third party administrators, HMOs and insurance companies.

The Company employs case managers who educate healthcare professionals from other hospitals as to the unique nature of the services provided by the Company's long-term care hospitals. The case managers develop an annual admission plan for each hospital with assistance from the hospital's administrator. To identify specific service opportunities, the admission plan for each hospital is based on a variety of factors, including population characteristics, physician characteristics and incidence of disability statistics. The admission plans involve ongoing education of local physicians, utilization review and case management personnel, acute care hospitals, HMOs and preferred provider organizations ("PPOs"). The Company maintains a pre-admission assessment system at its regional referral centers to evaluate certain clinical and other information in determining the appropriateness of each patient referred to its hospitals.

PROFESSIONAL STAFF

Each of the Company's hospitals is staffed with a multi-disciplinary team of healthcare professionals. A professional nursing staff trained to care for the long-term acute patient is on duty 24 hours each day in the Company's hospitals. Other professional staff includes respiratory therapists, physical therapists, occupational therapists, speech therapists, pharmacists, registered dietitians and social workers.

The physicians at the Company's hospitals generally are not employees of the Company and may be members of the medical staff of other hospitals. Each of the Company's hospitals has a fully credentialed, multi-

specialty medical staff to meet the needs of the clinically complex, long-term acute patient. Typically, each patient is visited at least once a day by a physician. A broad range of physician services is available including, but not limited to, pulmonology, internal medicine, infectious diseases, neurology, nephrology, cardiology, radiology and pathology. Generally, the Company does not enter into exclusive contracts with physicians to provide services to its hospital patients.

The Company believes that its future success will depend in large part upon its continued ability to hire and retain qualified personnel. The Company seeks the highest quality of professional staff within each market.

CENTRALIZED MANAGEMENT AND OPERATIONS

A hospital administrator supervises and is responsible for the day-to-day

operations at each of the Company's hospitals. Each hospital also employs a controller who monitors the financial matters of each hospital, including the measurement of actual operating results compared to goals established by the Company. In addition, each hospital employs an assistant administrator to oversee the clinical operations of the hospital and a quality assurance manager to direct an integrated quality assurance program. The Company's corporate headquarters provides services in the areas of system design and development, training, human resource management, reimbursement expertise, legal advice, technical accounting support, purchasing and facilities management. Financial control is maintained through fiscal and accounting policies that are established at the corporate level for use at each hospital. The Company has standardized operating procedures and monitors its hospitals to assure consistency of operations.

HOSPITAL MANAGEMENT INFORMATION SYSTEM

The financial information for each hospital is centralized at the corporate headquarters through its management information system. Prior to the acquisition of Transitional, the Company had installed its VenTouch(TM) information system, an electronic patient medical record system, in all of its hospitals. The Company expects to install VenTouch(TM) in the 19 former Transitional hospitals during 1998. See "--Management Information System."

QUALITY ASSESSMENT AND IMPROVEMENT

The Company maintains a strategic outcomes program which includes a centralized pre-admission evaluation program and concurrent review of all of its patient population against utilization and quality screenings, as well as quality of life outcomes data collection and patient and family satisfaction surveys. In addition, each hospital has an integrated quality assessment and improvement program administered by a quality review manager which encompasses utilization review, quality improvement, infection control and risk management. The objective of these programs is to ensure that patients are appropriately admitted to the Company's hospitals and that quality healthcare is rendered to them in a cost-effective manner.

The Company has implemented a program whereby its hospitals will be reviewed annually by internal quality auditors for compliance with standards of the Joint Commission on Accreditation of Health Care Organizations ("JCAHO"). The purposes of this internal review process are to (i) ensure ongoing compliance with industry recognized standards for hospitals, (ii) assist management in analyzing each hospital's operations and (iii) provide consulting and educational programs for each hospital to identify opportunities to improve patient care.

SELECTED HOSPITAL OPERATING DATA

The following table sets forth certain operating data for the Company's hospitals:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Hospitals in operation at end of period.....	60	38	36
Number of licensed beds at end of period.....	5,273	3,325	3,263
Patient days.....	767,810	586,144	489,612
Average daily census.....	2,104	1,601	1,341
Occupancy percentage.....	52.9%	53.7%	47.6%

As used in the above table, the term "licensed beds" refers to the maximum number of beds permitted in the hospital under its license regardless of whether the beds are actually available for patient care. "Patient days" refers to the total number of days of patient care provided by the Company's hospitals for the periods indicated. "Average daily census" is computed by dividing each hospital's patient days by the number of calendar days the respective hospital is in operation. "Occupancy percentage" is computed by dividing average daily census by the number of licensed beds, adjusted for the length of time each facility was in operation during each respective period.

SOURCES OF HOSPITAL REVENUES

The Company receives payment for hospital services from third-party payors, including government reimbursement programs such as Medicare and Medicaid and nongovernment sources such as commercial insurance companies, HMOs, PPOs and contracted providers. Patients covered by nongovernment payors will generally be more profitable to the Company than those covered by Medicare and Medicaid programs. The following table sets forth the approximate percentages of the Company's hospital patient days and revenues derived from the payor sources indicated:

	MEDICARE		MEDICAID		PRIVATE AND OTHER	
YEAR	PATIENT DAYS	REVENUES	PATIENT DAYS	REVENUES	PATIENT DAYS	REVENUES
1997.....	68%	63%	12%	8%	20%	29%
1996.....	64	59	17	12	19	29
1995.....	64	57	16	12	20	31

For the year ended December 31, 1997, hospital revenues totaled approximately $785.8 million, or 24.7% of the Company's total revenues. Changes caused by the Budget Act will reduce the level of Medicare payments made to the Company's hospitals by reducing incentive payments under the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") and allowable costs of capital expenditures and bad debts, and payments for services to patients transferred from a PPS hospital. See "--Governmental Regulation--Healthcare Reform Legislation."

HOSPITAL COMPETITION

As of December 31, 1997, the hospitals operated by the Company were located in 38 geographic markets in 24 states. In each geographic market, there are general acute care hospitals which provide services comparable to those offered by the Company's hospitals. In addition, the Company believes that as of December 31, 1997 there were approximately 180 hospitals in the United States certified by Medicare as general long-term hospitals, some of which provide similar cardiopulmonary services to those provided by the Company's hospitals. Many of these general acute care hospitals and long-term hospitals are larger and more established than the Company's hospitals. Certain hospitals that compete with the Company's hospitals are operated by not-for-profit, nontaxpaying or governmental agencies, which can finance capital expenditures on a tax-exempt basis, and which receive funds and charitable contributions unavailable to the Company's hospitals. Cost containment efforts by Federal and state governments and other third-party payors designed to encourage more efficient utilization of

hospital services have generally resulted in lower hospital industry occupancy rates in recent years. As a result of these efforts, a number of acute care hospitals have converted to specialized care facilities. Some hospitals are

developing step-down units which attempt to serve the needs of patients who require care at a level between that provided by an intensive care unit and a general medical/surgical floor. This trend is expected to continue due to the current oversupply of acute care hospital beds and the increasing consolidation and affiliation of free-standing hospitals into larger systems. As a result, the Company may experience increased competition from existing hospitals and converted facilities.

Competition for patients covered by non-government reimbursement sources is intense. The primary competitive factors in the long-term intensive care business include quality of services, charges for services and responsiveness to the needs of patients, families, payors and physicians. Other companies have entered the long-term intensive care market with licensed hospitals that compete with the Company's hospitals.

Some nursing centers, while not licensed as hospitals, have developed units which provide a greater intensity of care than typically provided by a nursing center. The condition of patients in these nursing centers is less acute than the condition of patients in the Company's hospitals.

The competitive position of any hospital, including the Company's hospitals, is also affected by the ability of its management to negotiate contracts with purchasers of group healthcare services, including private employers, PPOs and HMOs. Such organizations attempt to obtain discounts from established hospital charges. The importance of obtaining contracts with PPOs, HMOs and other organizations which finance healthcare, and its effect on a hospital's competitive position, vary from market to market, depending on the number and market strength of such organizations.

The Company also competes with other healthcare companies for hospital and other healthcare acquisitions.

NURSING CENTER OPERATIONS

At December 31, 1997, the Company provided long-term care and subacute medical and rehabilitation services in 309 nursing centers containing 40,383 licensed beds located in 32 states. At December 31, 1997, the Company owned 218 nursing centers and leased 78 nursing centers from third parties. The Company also managed 13 nursing centers, including seven centers owned by Tenet Healthcare Corporation ("Tenet"), which holds a greater than 10% interest in the Company. During 1997, the Company completed the sale of 28 of its underperforming or non-strategic nursing centers. One additional nursing center was sold and one nursing center was closed in January 1998, and two additional nursing centers are expected to be sold upon receipt of certain regulatory approvals.

The Company's nursing centers provide rehabilitation services, including physical, occupational and speech therapies. The majority of patients in rehabilitation programs stay for eight weeks or less. Patients in rehabilitation programs generally provide higher revenues than other nursing center patients because they require a higher level of ancillary services. In addition, management believes that the Company is one of the leading providers of care for patients with Alzheimer's disease. At December 31, 1997, the Company offered specialized programs covering approximately 3,100 beds in 88 nursing centers for patients suffering from Alzheimer's disease. Most of these patients reside in separate units within the nursing centers and are cared for by teams of professionals specializing in the unique problems experienced by Alzheimer's patients.

NURSING CENTER MARKETING

The factors which affect consumers' selection of a nursing center vary by community and include a nursing center's competitive position and its relationships with local referral sources. Competition creates the standards against which nursing centers in a given market are judged by various referral sources, which include physicians, hospital discharge planners, community organizations and families. Therefore, the Company's nursing center marketing efforts are conducted at the local market level by the nursing center

administrators, admissions coordinators and others. Nursing center personnel are assisted in carrying out their marketing strategies by regional marketing staffs. The Company's marketing efforts are directed toward improving the payor mix at the nursing centers by maximizing the census of private payment patients and Medicare patients.

NURSING CENTER OPERATIONS

Each nursing center is managed by a state-licensed administrator who is supported by other professional personnel, including a director of nursing, staff development professional (responsible for employee training), activities director, social services director, licensed dietitian, business office manager and, in general, physical, occupational and speech therapists. The directors of nursing are state-licensed nurses who supervise nursing staff which include registered nurses, licensed practical nurses and nursing assistants. Staff size and composition vary depending on the size and occupancy of each nursing center and on the level of care provided by the nursing center. The nursing centers contract with physicians who serve as medical directors and serve on quality assurance committees.

The nursing centers are supported by district and/or regional staff in the areas of nursing, dietary and rehabilitation services, maintenance, sales and financial services. In addition, corporate staff provide other services in the areas of sales assistance, human resource management, state and federal reimbursement, state licensing and certification, legal, finance and accounting support. Financial control is maintained principally through fiscal and accounting policies established at the corporate level for use at the nursing centers.

Quality of care is monitored and enhanced by quality assurance committees and family satisfaction surveys. The quality assurance committees oversee patient healthcare needs and patient and staff safety. Additionally, physicians serve on the quality assurance committees as medical directors and advise on healthcare policies and practices. Regional nursing professionals visit each nursing center periodically to review practices and recommend improvements where necessary in the level of care provided and to assure compliance with requirements under applicable Medicare and Medicaid regulations. Surveys of patients' families are conducted from time to time in which the families are asked to rate various aspects of service and the physical condition of the nursing centers. These surveys are reviewed by nursing center administrators to help ensure quality patient care.

The Company provides training programs for nursing center administrators, managers, nurses and nursing assistants. These programs are designed to maintain high levels of quality patient care.

Substantially all of the nursing centers are currently certified to provide services under Medicare and Medicaid programs. A nursing center's qualification to participate in such programs depends upon many factors, such as accommodations, equipment, services, safety, personnel, physical environment and adequate policies and procedures.

SELECTED NURSING CENTER OPERATING DATA

The following table sets forth certain operating data for the Company's nursing centers:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995

Number of nursing centers in operation at end of period	309	313	311
Number of licensed beds at end of period	40,383	39,619	39,480
Patient days	12,622,238	12,566,763	12,569,600
Average daily census	34,581	34,335	34,437
Occupancy percentage	90.5%	91.9%	92.2%

SOURCES OF NURSING CENTER REVENUES

Nursing center revenues are derived principally from Medicare and Medicaid programs and from private payment patients. Consistent with the nursing center industry, changes in the mix of the Company's patient population among these three categories significantly affect the profitability of the Company's operations. Although Medicare and other high acuity patients generally produce the most revenue per patient day, profitability is reduced by the costs associated with the higher level of nursing care and other services required

by such patients. The Company believes that private payment patients generally constitute the most profitable category and Medicaid patients generally constitute the least profitable category.

The following table sets forth the approximate percentages of the Company's nursing center patient days and revenues derived from the payor sources indicated:

	MEDICARE		MEDICAID		PRIVATE AND OTHER	
YEAR	PATIENT DAYS	REVENUES	PATIENT DAYS	REVENUES	PATIENT DAYS	REVENUES
1997	13%	32%	65%	43%	22%	25%
1996	12	30	65	44	23	26
1995	12	29	65	44	23	27

For the year ended December 31, 1997, nursing center revenues totaled approximately $1.72 billion, or 54.1% of the Company's total revenues.

Both governmental and private third-party payors employ cost containment measures designed to limit payments made to healthcare providers. Those measures include the adoption of initial and continuing recipient eligibility criteria which may limit payment for services, the adoption of coverage criteria which limit the services that will be reimbursed and the establishment of payment ceilings which set the maximum reimbursement that a provider may receive for services. Furthermore, government reimbursement programs are subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings and government funding restrictions, all of which may materially increase or decrease the rate of program payments to the Company for its services. The Budget Act requires the establishment of a prospective payment system for nursing centers for cost reporting periods beginning on or after July 1, 1998. During the first three years, the per diem rates for nursing centers will be based on a blend of facility-specific costs and Federal costs. Thereafter, the per diem rates will be based solely on Federal costs. The rates for such services have not been established or published. The new prospective payment system also will cover ancillary services provided to nursing center patients under the Vencare contract services business. There can be no assurance that payments under governmental and private third-party payor programs will remain at levels comparable to present levels or will be sufficient to cover the costs allocable to patients

eligible for reimbursement pursuant to such programs. In addition, there can be no assurance that facilities operated by the Company, or the provision of services and supplies by the Company, will meet the requirements for participation in such programs. The Company could be adversely affected by the continuing efforts of governmental and private third-party payors to contain the amount of reimbursement for healthcare services. See "--Governmental Regulation--Nursing Centers" and "--Governmental Regulation--Healthcare Reform Legislation."

Medicare. The Medicare Part A program provides reimbursement for extended care services furnished to Medicare beneficiaries who are admitted to nursing centers after at least a three-day stay in an acute care hospital. Covered services include supervised nursing care, room and board, social services, physical and occupational therapies, pharmaceuticals, supplies and other necessary services provided by nursing centers.

Until the implementation of the new prospective payment system, nursing center reimbursement will continue to be based upon reasonable direct and indirect costs of services provided to beneficiaries. Under the Medicare program, routine costs are subject to a routine cost limit ("RCL"). The RCL is a national average cost per patient day which is adjusted for variations in local wages. Revenues under this program are subject to audit and retroactive adjustment. Settlements of Medicare audits have not had a material adverse effect on the Company's nursing center operating results.

Medicaid. Medicaid is a state-administered program financed by state funds and matching Federal funds. The program provides for medical assistance to the indigent and certain other eligible persons. Although

administered under broad Federal regulations, states are given flexibility to construct programs and payment methods consistent with their individual goals. Accordingly, these programs differ from state to state in many respects.

Prior to the Budget Act, Federal law, generally referred to as the Boren Amendment, required Medicaid programs to pay rates that are reasonable and adequate to meet the costs incurred by an efficiently and economically operated nursing center providing quality care and services in conformity with all applicable laws and regulations. Despite the Federal requirements, disagreements frequently arose between nursing centers and states regarding the adequacy of Medicaid payments. By repealing the Boren Amendment, the Budget Act eases the impediments on the states' ability to reduce their Medicaid reimbursement levels for such services. In addition, Medicaid programs are subject to statutory and regulatory changes, administrative rulings, interpretations of policy by the state agencies and certain government funding limitations, all of which may materially increase or decrease the level of program payments to nursing centers operated by the Company. Management believes that the payments under many of these programs may not be sufficient on an overall basis to cover the costs of serving certain residents participating in these programs. Furthermore, the Omnibus Budget Reconciliation Act of 1987, as amended ("OBRA"), mandates an increased emphasis on ensuring quality patient care, which has resulted in additional expenditures by nursing centers.

There can be no assurance that the payments under Medicaid programs will remain at levels comparable to current levels or, in the future, will be sufficient to cover the costs incurred in serving patients participating in such programs. The Company provides to eligible individuals Medicaid-covered services consisting of nursing care, room and board and social services. In addition, states may at their option cover other services such as physical, occupational and speech therapies and pharmaceuticals.

Private Payment. The Company's nursing centers seek to maximize the number of private payment patients, including those covered under private insurance and managed care health plans. Private payment patients typically have financial resources (including insurance coverage) to pay for their monthly

services and do not rely on government programs for support.

NURSING CENTER COMPETITION

The Company's nursing centers compete on a local and regional basis with other nursing centers. The Company's competitive position varies within each community served. The Company believes that the quality of care provided, reputation, location and physical appearance of its nursing centers and, in the case of private patients, the charges for services, are significant competitive factors. Although there is limited, if any, price competition with respect to Medicare and Medicaid patients (since revenues received for services provided to such patients are based on fixed rates or cost reimbursement principles), there is significant competition for private payment patients.

The long-term care industry is divided into a variety of competitive areas which market similar services. These competitors include nursing centers, hospitals, extended care centers, assisted living facilities and communities, home health agencies and similar institutions. The industry includes government-owned, church-owned, secular not-for-profit and for-profit institutions.

NURSING CENTER FACILITIES

The following table lists by state the number of nursing centers and related licensed beds operated by the Company as of December 31, 1997:

		NUMBER OF FACILITIES			
STATE	LICENSED BEDS	OWNED	LEASED	MANAGED	TOTAL
Alabama(1)	592	3	1	-	4
Arizona	827	5	1	-	6
California	2,516	13	6	2	21
Colorado	935	4	3	-	7
Connecticut(1)	983	8	-	-	8
Florida(1)	2,828	16	3	2	21
Georgia(1)	1,336	4	6	-	10
Idaho	903	8	1	-	9
Indiana(1)	4,152	14	12	-	26
Kentucky(1)	2,089	13	4	-	17
Louisiana(1)	485	-	1	2	3
Maine(1)	882	11	-	-	11
Massachusetts(1)	4,232	33	3	2	38
Minnesota	159	1	-	-	1
Mississippi(1)	125	-	1	-	1
Montana(1)	456	2	1	-	3
Nebraska(1)	167	-	1	-	1
Nevada(1)	288	3	-	-	3
New Hampshire(1)	622	3	-	1	4
North Carolina(1)	3,212	20	8	-	28
Ohio(1)	2,161	11	4	1	16
Oregon(1)	358	2	1	-	3
Pennsylvania	200	1	1	-	2
Rhode Island(1)	201	2	-	-	2
Tennessee(1)	2,541	4	11	-	15
Texas	623	1	1	1	3
Utah	848	5	1	1	7
Vermont(1)	310	1	-	1	2
Virginia(1)	764	4	1	-	5

Washington(1)	1,504	10	3	-	13
Wisconsin(1)	2,633	12	3	-	15
Wyoming	451	4	-	-	4
Totals	40,383	218	78	13	309

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(1) These states have CON regulations. See "--Governmental Regulation--Nursing Centers."

VENCARE HEALTH SERVICES OPERATIONS

Through its Vencare health services operations, the Company has expanded the scope of its cardiopulmonary care by providing subacute care, rehabilitation therapy and respiratory care services and supplies to nursing and subacute care centers. The Company provides hospice services to nursing center patients, hospital patients and persons in private residences. In November 1996, the Company consolidated its pharmacy operations under its Vencare health services. In addition, the rehabilitation, respiratory and other healthcare services previously provided by TheraTx have been integrated into the Vencare operations. For the year ended December 31, 1997, revenues from the Vencare operations totaled approximately $642.5 million which represented 20.2% of the Company's total revenues.

During 1997, the Company initiated the sale of its Vencare full-service ancillary services contracts to provide a full range of ancillary services to nursing centers not operated by the Company. Management believes that by bundling services through one provider, nursing centers can provide quality patient care more efficiently with the added benefit of centralizing their medical records. Under the new prospective payment system imposed by the Budget Act, ancillary services provided by nursing centers will be subject to fixed payments. In this new environment, the Company believes that its full-service ancillary services contract will enhance the ability of nursing center operators to manage effectively the cost of providing quality patient care.

RESPIRATORY CARE SERVICES

The Company provides respiratory care services and supplies to nursing and subacute care center patients pursuant to contracts between the Company and the nursing center or subacute center. The services are provided by respiratory therapists based at the Company's hospitals. These respiratory therapists perform a wide variety of procedures, including oxygen therapy, bronchial hygiene, nebulizer and aerosol treatments, tracheostomy care, ventilator management and patient respiratory education. Pulse oximeters and arterial blood gas machines are used to evaluate the patient's condition, as well as the effectiveness of the treatment. The Company also provides respiratory equipment and supplies to nursing and subacute centers.

The Company receives payments from the nursing centers and subacute care centers for services rendered and these facilities, in turn, receive payments from the appropriate third-party payor. Respiratory therapy and supplies are generally covered under the Medicare program. Many commercial insurers and managed care providers are seeking hospital discharge options for lower acuity respiratory patients. Management believes that the Company's pricing and successful clinical outcomes make its respiratory care program attractive to commercial insurers and managed care providers.

At December 31, 1997, the Company had entered into contracts to provide respiratory therapy services and supplies to approximately 1,600 nursing and subacute care centers, which includes approximately 300 nursing centers operated by the Company.

SUBACUTE SERVICES

At December 31, 1997, the Company had entered into contracts to provide subacute care services to 11 nursing and subacute care centers. These services, which are also an extension of the cardiopulmonary services provided by the Company's hospitals, may include ventilator management, tracheostomy care, continuation of airway restoration programs, enteral and parenteral nutritional support, IV therapy for hydration and medication administration, progressive wound care, chronic chest tube management, laboratory, radiology, pharmacy and dialysis services, customized rehabilitation services and program marketing. Subacute patients generally require assisted ventilation through mechanical ventilation devices.

REHABILITATION THERAPY SERVICES

The Company provides physical, occupational and speech therapies to nursing and subacute care center patients, as well as home health patients and public school systems. At December 31, 1997, the Company had entered into contracts to provide rehabilitation services to patients at 400 facilities.

HOSPICE SERVICES

The Company provides hospice services to nursing center patients, hospital patients and persons in private residences. At December 31, 1997, the Company had entered into approximately 275 contracts to provide hospice services to patients in nursing and subacute care centers, hospitals and residences.

MOBILE DIAGNOSTIC SERVICES

The Company is a hospital based provider of on-call mobile X-ray services. These services are primarily provided to nursing facilities, but the Company also provides services to correctional facilities, rehabilitation hospitals and dialysis centers. These services are provided 24 hours a day, 365 days a year to over 130 facilities.

HOME CARE SERVICES

During 1996, the Company consolidated its home care services business to establish Vencor Home Care Services. These services include home health nursing products and services and home infusion therapy. These services are generally provided to patients on an individual basis. At December 31, 1997, the Company provided services from 28 locations in 13 states. For the year ended December 31, 1997, home care services generated approximately $19.3 million in revenues, representing less than 1% of the Company's total revenues.

COMPETITION IN THE CONTRACT SERVICES MARKET

Although the respiratory therapy services, rehabilitation services, subacute services and hospice care markets are fragmented, significant competition exists for the Company's contract services. The primary competitive factors for the contract services business are quality of services, charges for services and responsiveness to the needs of patients, families and the facilities in which the services are provided. Certain hospitals are establishing and managing their own step-down and subacute facilities. Other hospital companies have entered the contract services market through affiliation agreements and management contracts. In addition, many nursing centers are developing internal staff to provide those services, particularly in response to the planned implementation of the new prospective payment system for nursing centers.

PHARMACIES

The Company provides institutional and other pharmacy services. In November 1996, the Company consolidated its Medisave Pharmacies into its Vencare health services operations and now provides its hospital-based clinical pharmacy services as part of its Vencare services.

The institutional pharmacy business focuses on providing a full array of pharmacy services to over 600 nursing centers and specialized care centers. Institutional pharmacy sales encompass a wide variety of products including prescription medication, prosthetics, respiratory services, infusion services and enteral therapies. In addition, the Company provides a variety of pharmaceutical consulting services designed to assist hospitals, nursing centers and home health agencies in program administration. During 1997, the Company sold or closed all of its retail pharmacies except one which is in the process of being sold. The discontinuance of the retail pharmacy operations in 1997 did not have a material adverse effect on Vencare's operations.

MANAGEMENT INFORMATION SYSTEM

The financial information for each of the Company's facilities is centralized at the corporate headquarters through its management information system. The Company uses a comprehensive financial reporting system which enables it to monitor certain key financial data at each facility such as payor mix, admissions and discharges, cash collections, net revenues and staffing. In addition, the financial reporting system provides monthly budget analysis, financial comparisons to prior periods and comparisons among the Company's facilities.

The Company has developed the VenTouch(TM) electronic patient medical record system. VenTouch(TM) is a software application which allows nurses, physicians and other clinicians to manage clinical information utilized in the patient care delivery process.

Among the features of VenTouch(TM) are on-line access and update of an electronic patient chart, an on-line trend analysis using electronic flowsheets and graphs, and remote access for authorized users. Features specific to the nursing centers include a complete on-line Resident Assessment Instrument Process that incorporates state specific guidelines, computer generated Resident Assessment Protocols, on-line HCFA Resident Assessment Instrument manual and electronic data transfer capabilities. The system is designed to decrease administrative time, reduce paper and support the delivery of quality patient care.

Prior to the acquisition of Transitional, the Company had completed the installation of VenTouch(TM) information system in its hospitals. The Company expects to install VenTouch(TM) in the 19 former Transitional hospitals during 1998. At December 31, 1997, 51 of the Company's nursing centers were utilizing the VenTouch(TM) information system. The Company expects to install VenTouch(TM) in 40 to 50 of its nursing centers during 1998. In addition, the Company intends to offer VenTouch(TM) in connection with the services offered by Vencare to nursing centers not operated by the Company.

GOVERNMENTAL REGULATION

HOSPITALS

Certificates of Need and State Licensing. CON regulations control the development and expansion of healthcare services and facilities in certain states. CON laws generally provide that approval must be obtained from the designated state health planning agency prior to the expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major items of equipment or introduction of new services. The stated objective of the CON process is to promote quality healthcare at the lowest possible cost and avoid unnecessary duplication of services, equipment and facilities. Recently, some states (including Florida, Massachusetts and Tennessee) have amended their CON regulations to require CON approval prior to the conversion of a hospital from a general short-term facility to a general long-term facility. Of the 24 states in which the Company's hospitals were located as of

December 31, 1997, Florida, Georgia, Illinois, Kentucky, Massachusetts, Michigan, Missouri, North Carolina, Tennessee, Virginia and Washington have CON programs. With one exception, the Company was not required to obtain a CON in connection with previous acquisitions due to the relatively low renovation costs and the absence of the need for additional licensed beds or changes in services. CONs may be required in connection with the Company's future hospital and contract services expansion. There can be no assurance that the Company will be able to obtain the CONs necessary for any or all future projects. If the Company is unable to obtain the requisite CONs, its respective growth and businesses could be adversely affected.

State licensing of hospitals is a prerequisite to the operation of each hospital and to participation in government programs. Once a hospital becomes licensed and operational, it must continue to comply with Federal, state and local licensing requirements in addition to local building and life-safety codes. All of the Company's hospitals in operation have obtained the necessary licenses to conduct business.

Medicare and Medicaid. Medicare is a Federal program that provides certain hospital and medical insurance benefits to persons age 65 and over and certain disabled persons. Medicaid is a medical assistance program administered by each state pursuant to which hospital benefits are available to certain indigent patients. Within the Medicare and Medicaid statutory framework, there are substantial areas subject to administrative rulings, interpretations and discretion which may affect payments made under Medicare and Medicaid. A substantial portion of the Company's hospital revenues are derived from patients covered by Medicare and Medicaid. See "--Hospital Operations--Sources of Hospital Revenues."

In order to receive Medicare reimbursement, each hospital must meet the applicable conditions of participation set forth by the Department of Health and Human Services ("HHS") relating to the type of hospital, its equipment, personnel and standard of medical care, as well as comply with state and local laws and regulations. The Company has developed a management system to ensure compliance with the various standards and requirements. Each of the Company's hospitals employs a person who is responsible for an on-going quality assessment and improvement program. Hospitals undergo periodic on-site Medicare certification surveys, which are generally limited if the hospital is accredited by JCAHO. As of December 31, 1997, all of the Company's hospitals were certified as Medicare providers and 53 of such hospitals were also certified by their respective state Medicaid programs. Applications are pending for certification with respect to the Company's other hospitals. A loss of certification could adversely affect a hospital's ability to receive payments from Medicare and Medicaid programs.

Prior to 1983, Medicare reimbursed hospitals for the reasonable direct and indirect cost of the services provided to beneficiaries. The Social Security Amendments of 1983 implemented PPS as a means of controlling healthcare costs. Under PPS, Medicare inpatient costs are reimbursed based upon a fixed payment amount per discharge using diagnosis related groups ("DRGs"). The DRG payment under PPS is based upon the national average cost of treating a Medicare patient's condition. Although the average length of stay varies for each DRG, the average stay for all Medicare patients subject to PPS is approximately six days. An additional outlier payment is made for patients with unusually extended lengths of stay or higher treatment costs. Outlier payments are only designed to cover marginal costs. Additionally, it takes 60 days or more for PPS payments to be made. Thus, PPS creates an economic incentive for general short-term hospitals to discharge chronic Medicare patients as soon as clinically possible. Hospitals that are certified by Medicare as general long-term hospitals are excluded from PPS. Management believes that the incentive for short-term hospitals to discharge chronic medical patients as soon as clinically possible creates a substantial referral source for the Company's long-term hospitals.

The Social Security Amendments of 1983 excluded psychiatric, rehabilitation, cancer, children's and general long-term hospitals from PPS. A general long-term hospital is defined as a hospital which has an average length of stay greater than 25 days. Inpatient operating costs for general long-term hospitals are reimbursed under the cost-based reimbursement system, subject to a computed target rate (the "Target") per discharge for inpatient operating costs established by TEFRA. As discussed below, the Budget Act makes significant changes to the current TEFRA provisions.

Prior to the Budget Act, Medicare operating costs per discharge in excess of the Target were reimbursed at the rate of 50% of the excess up to 10% of the Target. Hospitals whose operating costs were lower than the Target were reimbursed their actual costs plus an incentive. This incentive is currently equal to 50% of the difference between their actual costs and the Target and may not exceed 5% of the Target. For cost report periods beginning on or after October 1, 1997, the Budget Act reduces the incentive payments to an amount equal to 15% of the difference between the actual costs and the Target, but not to exceed 2% of the Target. Costs in excess of the Target will still be reimbursed at the rate of 50% of the excess up to 10% of the Target but the threshold to qualify for such payments will be raised from 100% to 110% of the Target. The Budget Act also caps the Targets based on the 75th percentile for each category of hospitals using 1996 data.

Prior to October 1, 1997, new hospitals could apply for an exemption from the TEFRA Target provisions. For hospitals certified prior to October 1, 1992, the exemption was optional and, if granted, lasted for three years.

For certifications since October 1, 1992, the exemption is automatic and is effective for two years. Under the Budget Act, a new provider will no longer receive unlimited cost-based reimbursement for its first few years in operation. Instead, for the first two years, it will be paid the lower of its costs or 110% of the median TEFRA Target for 1996 adjusted for inflation. During this two year period, providers remain subject to the TEFRA penalty and incentive payments discussed in the previous paragraph.

As of December 31, 1997, 50 of the hospitals operated by the Company were subject to TEFRA Target provisions. The Company's other long-term hospitals were not subject to TEFRA because they had qualified for the new hospital exemptions described above. During 1998, five more of the Company's hospitals will become subject to TEFRA Target provisions. The TEFRA Target limits have not had a material adverse effect on the Company's results of operations, and the Company does not expect that the TEFRA limits will have a material adverse effect on its results of operations in 1998. The reductions in the TEFRA incentive payments, which are expected to be effective beginning on September 1, 1998 with respect to the Company's hospitals, will have an adverse impact on hospital revenues in the future.

Medicare and Medicaid reimbursements were generally determined from annual cost reports filed by the Company which are subject to audit by the respective agency administering the programs. Management believes that adequate provisions for loss have been recorded to reflect any adjustments which could result from audits of these cost reports. Adjustments to the Company's cost reports have not had an adverse effect on the Company's hospital operating results.

Federal regulations provide that admission to and utilization of hospitals by Medicare and Medicaid patients must be reviewed by peer review organizations ("PROs") in order to ensure efficient utilization of hospitals and services. A PRO may conduct such review either prospectively or retroactively and may, as appropriate, recommend denial of payments for services provided to a patient. Such review is subject to administrative and judicial appeal. Each of the Company's hospitals employs a clinical professional to administer the hospital's integrated quality assurance and improvement program, including its utilization review program. PRO denials have not had a material adverse effect on the Company's hospital operating

results.

Medicare and Medicaid antikickback, antifraud and abuse amendments codified under Section 1128(B)(b) of the Social Security Act (the "Antikickback Amendments") prohibit certain business practices and relationships that might affect the provision and cost of healthcare services reimbursable under Medicare and Medicaid. Sanctions for violating the Antikickback Amendments include criminal and civil penalties and exclusion from the Medicare and Medicaid programs. Pursuant to the Medicare and Medicaid Patient and Program Protection Act of 1987, HHS and the Office of the Inspector General ("OIG") specified certain Safe Harbors (as hereinafter defined) which describe conduct and business relationships permissible under the Antikickback Amendments. These Safe Harbor regulations may result in more aggressive enforcement of the Antikickback Amendments by HHS and the OIG.

Section 1877 of the Social Security Act (commonly known as "Stark I") states that a physician who has a financial relationship with a clinical laboratory is generally prohibited from referring patients to that laboratory. The Omnibus Budget Reconciliation Act of 1993 contains provisions ("Stark II") amending Section 1877 to greatly expand the scope of Stark I. Effective January 1995, Stark II broadened the referral limitations of Stark I to include, among other designated health services, inpatient and outpatient hospital services. Under Stark I and Stark II (collectively referred to as the "Stark Provisions"), a "financial relationship" is defined as an ownership interest or a compensation arrangement. If such a financial relationship exists, the entity is generally prohibited from claiming payment for such services under the Medicare or Medicaid programs. Compensation arrangements are generally exempted from the Stark Provisions if, among other things, the compensation to be paid is set in advance, does not exceed fair market value and is not determined in a manner that takes into account the volume or value of any referrals or other business generated between the parties. These laws and regulations, however, are extremely complex and the industry has the benefit of little judicial or regulatory interpretation. The Company expects that business practices of providers and financial relationships between providers will be subject to increased scrutiny as healthcare reform efforts continue on the Federal and state levels.

The Budget Act provides a number of new antifraud and abuse provisions. The Budget Act contains new civil monetary penalties for violations of the Antikickback Amendments and imposes an affirmative duty on providers to insure that they do not employ or contract with persons excluded from the Medicare program. The Budget Act also provides a minimum ten year period for exclusion from participation in Federal healthcare programs for persons convicted of a prior healthcare offense.

JCAHO Accreditation. Hospitals receive accreditation from JCAHO, a nationwide commission which establishes standards relating to the physical plant, administration, quality of patient care and operation of medical staffs of hospitals. Generally, hospitals and certain other healthcare facilities are required to have been in operation at least six months in order to be eligible for accreditation by JCAHO. After conducting on-site surveys, JCAHO awards accreditation for up to three years to hospitals found to be in substantial compliance with JCAHO standards. Accredited hospitals are periodically resurveyed, at the option of JCAHO, upon a major change in facilities or organization and after merger or consolidation. As of December 31, 1997, 58 of the hospitals operated by the Company were accredited by JCAHO. The Company intends to apply for JCAHO accreditation for its other hospitals within the next year. The Company intends to seek and obtain JCAHO accreditation for any additional facilities it may purchase or lease and convert into long-term hospitals. The Company does not believe that the failure to obtain JCAHO accreditation at any hospital would have a material adverse effect on the Company's results of operations.

State Regulatory Environment. The Company operates seven hospitals and a chronic unit in Florida, a state which regulates hospital rates. These

operations contribute a significant portion of the Company's revenues and operating income from its hospitals. Accordingly, the Company's hospital revenues and operating income could be materially adversely affected by Florida rate setting laws or other cost containment efforts. The Company also operates ten hospitals in Texas, nine hospitals in California, and five hospitals in Illinois which contribute a significant portion of the Company's revenues and operating income from its hospitals. Although Texas, California and Illinois do not currently regulate hospital rates, the adoption of such legislation or other cost containment measures in these or other states could have a material adverse effect on the Company's hospital revenues and operating income. Moreover, the repeal of the Boren Amendment by the Budget Act eases the impediments on the states' ability to reduce their Medicaid reimbursement levels. The Company is unable to predict whether and in what form such legislation will be adopted. Certain other states in which the Company operates hospitals require disclosure of specified financial information. In evaluating markets for expansion, the Company will consider the regulatory environment, including but not limited to, any mandated rate setting.

NURSING CENTERS

The Company's nursing center business is subject to various Federal and state regulations. In particular, the development and operation of nursing centers and the provision of healthcare services are subject to Federal, state and local laws relating to the adequacy of medical care, equipment, personnel, operating policies, fire prevention, rate-setting and compliance with building codes and environmental laws. Nursing centers are subject to periodic inspection by governmental and other authorities to assure continued compliance with various standards, their continued licensing under state law, certification under the Medicare and Medicaid programs and continued participation in the Veterans Administration program. The failure to obtain or renew any required regulatory approvals or licenses could adversely affect the Company's operations.

Effective October 1, 1990, OBRA increased the enforcement powers of state and Federal certification agencies. Additional sanctions were authorized to correct noncompliance with regulatory requirements, including fines, temporary suspension of admission of new patients to nursing centers and, in extreme circumstances, decertification from participation in the Medicare or Medicaid programs.

The nursing centers managed and operated by the Company are licensed either on an annual or bi-annual basis and certified annually for participation in Medicare and Medicaid programs through various regulatory

agencies which determine compliance with Federal, state and local laws. These legal requirements relate to the quality of the nursing care provided, the qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment and continuing compliance with the laws and regulations governing the operation of nursing centers. From time to time the nursing centers receive statements of deficiencies from regulatory agencies. In response, the Company will implement plans of correction with respect to these nursing centers to address the alleged deficiencies. The Company believes that its nursing centers are currently in material compliance with all applicable regulations or laws.

In certain circumstances, Federal law mandates that conviction for certain abusive or fraudulent behavior with respect to one nursing center may subject other facilities under common control or ownership to disqualification for participation in Medicare and Medicaid programs. In addition, some state regulations provide that all nursing centers under common control or ownership within a state are subject to delicensure if any one or more of such facilities are delicensed.

Revised Federal regulations under OBRA, which became effective in 1995,

affect the survey process for nursing centers and the authority of state survey agencies and the Health Care Financing Administration ("HCFA") to impose sanctions on facilities based upon noncompliance with requirements. Available sanctions include imposition of civil monetary penalties, temporary suspension of payment for new admissions, appointment of a temporary manager, suspension of payment for eligible patients and suspension or decertification from participation in the Medicare and/or Medicaid programs. The Company is unable to project how these regulatory changes and their implementation will affect the Company.

In addition to license requirements, many states have statutes that require a CON to be obtained prior to the construction of a new nursing center, the addition of new beds or services or the incurrence of certain capital expenditures. Certain states also require regulatory approval prior to certain changes in ownership of a nursing center. Certain states have eliminated their CON programs and other states are considering alternatives to their CON programs. To the extent that CONs or other similar approvals are required for expansion of the Company's operations, either through facility acquisitions, expansion or provision of new services or other changes, such expansion could be adversely affected by the failure or inability to obtain the necessary approvals, changes in the standards applicable to such approvals or possible delays and expenses associated with obtaining such approvals.

The Company's operations are also subject to Federal and state laws which govern financial and other arrangements between healthcare providers. These laws often prohibit certain direct and indirect payments or fee-splitting arrangements between healthcare providers that are designed to induce or encourage the referral of patients to, or the recommendation of, a particular provider for medical products and services. Such laws include the Antikickback Amendments. These provisions prohibit, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. The Company's operations also are subject to additional antifraud and abuse provisions contained in the Budget Act. In addition, some states restrict certain business relationships between physicians and pharmacies, and many states prohibit business corporations from providing, or holding themselves out as a provider of, medical care. Possible sanctions for violation of any of these restrictions or prohibitions include loss of licensure or eligibility to participate in reimbursement programs as well as civil and criminal penalties. These laws vary from state to state.

A substantial portion of the Company's nursing center revenues are derived from patients covered by Medicare and Medicaid. See "--Nursing Center Operations--Sources of Nursing Center Revenues." The Budget Act requires the establishment of a prospective payment system for nursing centers for cost reporting periods beginning on or after July 1, 1998. During the first three years, the per diem rates for nursing centers will be based on a blend of facility-specific costs and Federal costs. Thereafter, the per diem rates will be based solely on Federal costs. The rates for such services have not been established or published. The prospective payment system also will cover ancillary services provided to nursing center patients under the Company's Vencare contract services business.

PHARMACIES

The Company's pharmaceutical operations are subject to regulation by the various states in which the Company conducts its business as well as by the Federal government. The Company's pharmacies are regulated under the Food, Drug and Cosmetic Act and the Prescription Drug Marketing Act, which are administered by the United States Food and Drug Administration. Under the Comprehensive Drug Abuse Prevention and Control Act of 1970, which is administered by the United States Drug Enforcement Administration ("DEA"), dispensers of controlled substances must register with the DEA, file reports of inventories and transactions and provide adequate security measures. Failure to comply with such requirements could result in civil or criminal penalties.

HEALTHCARE REFORM LEGISLATION

In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that could effect major changes in the healthcare system. The Budget Act, enacted in August 1997, contains extensive changes to the Medicare and Medicaid programs intended to reduce the projected amount of increase in payments under those programs by $115 billion and $13 billion, respectively, over the next five years. Under the Budget Act, annual growth rates for Medicare will be reduced from over 10% to approximately 7.5% for the next five years based on specific program baseline projections from the last five years. Virtually all spending reductions will come from providers and changes in program components. The Budget Act will affect reimbursement systems for each of the Company's operating units.

The Budget Act will reduce payments made to the Company's hospitals by reducing TEFRA incentive payments, allowable costs for capital expenditures and bad debts, and payments for services to patients transferred from a PPS hospital. The reductions in allowable costs for capital expenditures became effective October 1, 1997. The reductions in the TEFRA incentive payments and allowable costs for bad debts are expected to be effective beginning on September 1, 1998 with respect to the Company's hospitals. The reductions for payments for services to patients transferred from a PPS hospital are expected to be effective October 1, 1998. The Budget Act also requires the establishment of a prospective payment system for nursing centers for cost reporting periods beginning on or after July 1, 1998. During the first three years, the per diem rates for nursing centers will be based on a blend of facility-specific costs and Federal costs. Thereafter, the per diem rates will be based solely on Federal costs. The rates for such services have not been established or published. The payments received under the new prospective payment system will cover all services for Medicare patients, including all ancillary services, such as respiratory therapy, physical therapy, occupational therapy, speech therapy and certain covered drugs. The Budget Act also requires an adjustment to the payment system for home health services for cost reporting periods beginning on or after October 1, 1997. The new system will adjust per visit limits and establish per beneficiary annual spending limits. A prospective payment system for home health services will be established by October 1, 1999.

Management believes that the Budget Act will adversely impact its hospital business by reducing the payments previously described. Based on information currently available, management believes that the new prospective payment system will benefit nursing center operations because (i) management believes that the average acuity levels of its patients will exceed the national average (which should result in increased payments per patient day) and (ii) because the Company expects to benefit from its ability to reduce the cost of providing ancillary services to patients in its facilities. The new Medicare prospective payment rates and related patient acuity measures will be established by HCFA, and as of the date hereof the Company does not know what these amounts will be. Management believes that its anticipated growth in nursing center profitability would be reduced if Congress acts to delay the effective date of the prospective payment system. As the nursing center industry adapts to the cost containment measures inherent in the new prospective payment system, management believes that the volume of ancillary services provided per patient day to nursing center patients could decline. In addition, as a result of these changes, many nursing centers may elect to provide ancillary services to their patients through internal staff and will no longer contract with outside parties for ancillary services. For these reasons and others, since the enactment of the Budget Act, sales of new contracts have declined and may continue to decline subject to the Company's success in implementing its Vencare comprehensive, full-service

contracts sales strategy. The Company is actively implementing strategies and operational modifications to address changes in the Federal reimbursement

system.

In January 1998, HCFA issued rules changing Medicare reimbursement guidelines for therapy services provided by the Company (including the rehabilitation contract therapy business acquired as part of the acquisition of TheraTx). Under the new rules, HCFA established salary equivalency limits for speech and occupational therapy services and revised existing limits for physical and respiratory therapy services. The limits are based on a blend of data from wage rates for hospitals and nursing facilities, and include salary, fringe benefit and expense factors. Rates are defined by specific geographic market areas, based upon a modified version of the hospital wage index. The new limits are effective for services provided on or after April 1, 1998 and are expected to impact negatively Vencare operating results in 1998. The Company will continue to charge client nursing centers in accordance with the revised guidelines until such nursing centers transition to the new prospective payment system. Under the new prospective payment system, the reimbursement for these services provided to nursing center patients will be a component of the total reimbursement allowed per nursing center patient and the salary equivalency guidelines will no longer be applicable. Most of the Company's client nursing centers are expected to transition to the new prospective payment system on or before January 1, 1999.

There also continues to be state legislative proposals that would impose more limitations on government and private payments to providers of healthcare services such as the Company. Many states have enacted or are considering enacting measures that are designed to reduce their Medicaid expenditures and to make certain changes to private healthcare insurance. Some states also are considering regulatory changes that include a moratorium on the designation of additional long-term care hospitals and changes in the Medicaid reimbursement system applicable to the Company's hospitals. There are also a number of legislative proposals including cost caps and the establishment of Medicaid prospective payment systems for nursing centers. Moreover, by repealing the Boren Amendment, the Budget Act eases existing impediments on the states' ability to reduce their Medicaid reimbursement levels.

There can be no assurance that the Budget Act, new salary equivalency rates, future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs will not have a material adverse effect on the Company's financial condition, results of operations and liquidity.

ADDITIONAL COMPANY INFORMATION

EMPLOYEES

As of December 31, 1997, the Company had approximately 52,800 full-time and 24,000 part-time and per diem employees. The Company was a party to 27 collective bargaining agreements covering approximately 2,550 employees as of December 31, 1997.

LIABILITY INSURANCE

The Company's hospitals, contract services, nursing centers and pharmaceutical operations are insured by the Company's wholly owned captive insurance company, Cornerstone Insurance Company. Cornerstone Insurance Company is reinsured for losses in excess of $500,000 per claim and $8.5 million in annual aggregation. Coverages for losses in excess of various limits are maintained through unrelated commercial insurance carriers to provide $130.0 million limits per claim and in the aggregate.

The Company believes that its insurance is adequate in amount and coverage. There can be no assurance that in the future such insurance will be available at a reasonable price or that the Company will be able to maintain adequate levels of malpractice insurance coverage.

CAUTIONARY STATEMENTS

This Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements regarding the Company's expected future financial position, results of operations, cash flows, dividends, financing plans, business strategy, budgets, projected costs and capital expenditures, competitive positions, growth opportunities, plans and objectives of management for future operations and words such as "anticipate," "believe," "plan," "estimate," "expect," "intend," and other similar expressions are forward-looking statements. Such forward-looking statements are inherently uncertain, and stockholders must recognize that actual results may differ from the Company's expectations as a result of a variety of factors, including, without limitation, the following:

LIMITS ON REIMBURSEMENT

The Company derives a substantial portion of its net operating revenues from third-party payors, including the Medicare and Medicaid programs. In 1997 and 1996, the Company derived approximately 60% and 62% of its total revenues from the Medicare and Medicaid programs, respectively. Such programs are highly regulated and subject to frequent and substantial changes. The Budget Act is intended to reduce the increase in Medicare payments by $115 billion over the next five years and makes extensive changes in the Medicare and Medicaid programs. In addition, private payors, including managed care payors, increasingly are demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk. Efforts to impose greater discounts and more stringent cost controls by private payors are expected to continue. There can be no assurances that adequate reimbursement levels will continue to be available for services to be provided by the Company which are currently being reimbursed by Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Company's liquidity, financial condition and results of operations.

EXTENSIVE REGULATION

The healthcare industry is subject to extensive Federal, state and local regulation including, but not limited to, regulations relating to licensure, conduct of operations, ownership of facilities, addition of facilities, services and prices for services. In particular, Medicare and Medicaid Antikickback Amendments prohibit certain business practices and relationships that might affect the provisions and cost of healthcare services reimbursable under Medicare and Medicaid, including the payment or receipt of remuneration for the referral of patients whose care will be paid by Medicare or other governmental programs. Sanctions for violating the Antikickback Amendments include criminal penalties and civil sanctions, including fines and possible exclusion from government programs such as the Medicare and Medicaid programs. In the ordinary course of its business, the Company is subject regularly to inquiries, investigations and audits by the Federal and state agencies that oversee these laws and regulations.

Pursuant to the Medicare and Medicaid Patient and Program Protection Act of 1987, HHS has issued regulations that describe some of the conduct and business relationships permissible under the Antikickback Amendments ("Safe Harbors"). The fact that a given business arrangement does not fall within a Safe Harbor does not render the arrangement per se illegal. Business arrangements of healthcare service providers that fail to satisfy the applicable Safe Harbors criteria, however, risk increased scrutiny and possible sanctions by enforcement authorities.

The Health Insurance Portability and Accountability Act of 1997, which became effective January 1, 1997, amends, among other things, Title XI (42 U.S.C. 1301 et seq.) to broaden the scope of current fraud and abuse laws to include all health plans, whether or not they are reimbursed under Federal programs.

In addition, Section 1877 of the Social Security Act, which restricts

referrals by physicians of Medicare and other government-program patients to providers of a broad range of designated health services with which they

have ownership or certain other financial arrangements, was amended effective January 1, 1995, to significantly broaden the scope of prohibited physician referrals under the Medicare and Medicaid programs to providers with which they have ownership or certain other financial arrangements (the "Self-Referral Prohibitions"). Many states have adopted or are considering similar legislative proposals, some of which extend beyond the Medicaid program to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of the source of the payment for the care. These laws and regulations are extremely complex and little judicial or regulatory interpretation exists. The Company does not believe its arrangements are in violation of the Self-Referral Prohibitions. There can be no assurance, however, that governmental officials charged with responsibility for enforcing the provisions of the Self-Referral Prohibitions will not assert that one or more of the Company's arrangements is in violation of such provisions.

The Budget Act also provides a number of new antifraud and abuse provisions. The Budget Act contains new civil monetary penalties for violations of the Antikickback Amendments and imposes an affirmative duty on providers to insure that they do not employ or contract with persons excluded from the Medicare program. The Budget Act also provides a minimum ten year period for exclusion from participation in Federal healthcare programs for persons convicted of a prior healthcare offense.

Some states require state approval for development and expansion of healthcare facilities and services, including findings of need for additional or expanded healthcare facilities or services. CONs, which are issued by governmental agencies with jurisdiction over healthcare facilities, are at times required for expansion of existing facilities, construction of new facilities, addition of beds, acquisition of major items of equipment or introduction of new services. The Company operates hospitals in 11 states that require state approval for the expansion of its facilities and services under CON programs. There can be no assurance that the Company will be able to obtain a CON for any or all future projects. If the Company is unable to obtain the requisite CON, its growth and business could be adversely affected.

The Company is unable to predict the future course of Federal, state and local regulation or legislation, including Medicare and Medicaid statutes and regulations. Changes in the regulatory framework could have a material adverse effect on the Company's financial condition and results of operations.

HEALTHCARE REFORM LEGISLATION

Healthcare is one of the largest industries in the United States and continues to attract much legislative interest and public attention. The Budget Act, enacted in August 1997, contains extensive changes to the Medicare and Medicaid programs intended to reduce the projected amount of increase in payments under those programs by $115 billion and $13 billion, respectively, over the next five years. Under the Budget Act, annual growth rates for Medicare will be reduced from over 10% to approximately 7.5% for the next five years based on specific program baseline projections from the last five years. Virtually all spending reductions will come from providers and changes in program components. The Budget Act will affect reimbursement systems for each of the Company's operating units.

The Budget Act will reduce payments made to the Company's hospitals by reducing TEFRA incentive payments, allowable costs for capital expenditures and bad debts, and payments for services to patients transferred from a PPS hospital. The reductions in allowable costs for capital expenditures became effective October 1, 1997. The reductions in the TEFRA incentive payments and allowable costs for bad debts are expected to be effective beginning on September 1, 1998 with respect to the Company's hospitals. The reductions for

payments for services to patients transferred from a PPS hospital are expected to be effective October 1, 1998. The Budget Act also requires the establishment of a prospective payment system for nursing centers for cost reporting periods beginning on or after July 1, 1998. During the first three years, the per diem rates for nursing centers will be based on a blend of facility-specific costs and Federal costs. Thereafter, the per diem rates will be based solely on Federal costs. The rates for such services have not been established or published. The payments received under the new prospective payment system will cover all services for Medicare patients including all

ancillary services, such as respiratory therapy, physical therapy, occupational therapy, speech therapy and certain covered drugs. The Budget Act also requires an adjustment to the payment system for home health services for cost reporting periods beginning on or after October 1, 1997. The new system will adjust per visit limits and establish per beneficiary annual spending limits. A prospective payment system for home health services will be established by October 1, 1999.

Management believes that the Budget Act will adversely impact its hospital business by reducing the payments previously described. Based on information currently available, management believes that the new prospective payment system will benefit nursing center operations because (i) management believes that the average acuity levels of its patients will exceed the national average (which should result in increased payments per patient day) and (ii) because the Company expects to benefit from its ability to reduce the cost of providing ancillary services to patients in its facilities. The new Medicare prospective payment rates and related patient acuity measures will be established by HCFA, and as of the date hereof the Company does not know what these amounts will be. Management believes that its anticipated growth in nursing center profitability would be reduced if Congress acts to delay the effective date of the prospective payment system. As the nursing center industry adapts to the cost containment measures inherent in the new prospective payment system, management believes that the volume of ancillary services provided per patient day to nursing center patients could decline. In addition, as a result of these changes, many nursing centers may elect to provide ancillary services to their patients through internal staff and will no longer contract with outside parties for ancillary services. For these reasons and others, since the enactment of the Budget Act, sales of new contracts have declined and may continue to decline subject to the Company's success in implementing its Vencare comprehensive, full-service contracts sales strategy. The Company is actively implementing strategies and operational modifications to address changes in the Federal reimbursement system.

In January 1998, HCFA issued rules changing Medicare reimbursement guidelines for therapy services provided by the Company (including the rehabilitation contract therapy business acquired as part of the acquisition of TheraTx). Under the new rules, HCFA established salary equivalency limits for speech and occupational therapy services and revised existing limits for physical and respiratory therapy services. The limits are based on a blend of data from wage rates for hospitals and nursing centers, and include salary, fringe benefit and expense factors. Rates are defined by specific geographic market areas, based upon a modified version of the hospital wage index. The new limits are effective for services provided on or after April 1, 1998 and are expected to impact negatively Vencare operating results in 1998. The Company will continue to charge client nursing centers in accordance with the revised guidelines until such nursing centers transition to the new prospective payment system. Under the new prospective payment system, the reimbursement for these services provided to nursing center patients will be a component of the total reimbursement allowed per nursing center patient and the salary equivalency guidelines will no longer be applicable. Most of the Company's client nursing centers are expected to transition to the new prospective payment system on or before January 1, 1999.

There also continues to be state legislative proposals that would impose

more limitations on government and private payments to providers of healthcare services such as the Company. Many states have enacted or are considering enacting measures that are designed to reduce their Medicaid expenditures and to make certain changes to private healthcare insurance. Some states also are considering regulatory changes that include a moratorium on the designation of additional long-term care hospitals and changes in the Medicaid reimbursement system applicable to the Company's hospitals. There are also a number of legislative proposals including cost caps and the establishment of Medicaid prospective payment systems for nursing centers. Moreover, by repealing the Boren Amendment, the Budget Act eases existing impediments on the states' ability to reduce their Medicaid reimbursement levels.

There can be no assurance that the Budget Act, new salary equivalency rates, future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs will not have a material adverse effect on the Company's financial condition, results of operations and liquidity.

HIGHLY COMPETITIVE INDUSTRY

The healthcare services industry is highly competitive. The Company faces competition from general acute care hospitals and long-term care hospitals which provide services comparable to those offered by the Company's hospitals. Many general acute care hospitals are larger and more established than the Company's hospitals. Certain hospitals that compete with the Company's hospitals are operated by not-for-profit, nontaxpaying or governmental agencies, which can finance capital expenditures on a tax-exempt basis, and which receive funds and charitable contributions unavailable to the Company's hospitals. The Company may experience increased competition from existing hospitals as well as hospitals converted, in whole or in part, to specialized care facilities. The Company's nursing centers compete on a local and regional basis with other nursing centers, and competition also exists for the Vencare health services operations. It is also expected that the Company will continue to compete with other healthcare companies for the acquisition and development of additional hospitals, nursing facilities and other healthcare assets and businesses.

ABILITY TO IMPLEMENT GROWTH STRATEGY

There can be no assurance that the Company will be able to continue its growth or be able to successfully implement its strategy to develop long-term healthcare networks. There can be no assurance that suitable acquisitions, for which other healthcare companies (including those with greater financial resources than the Company) may be competing, can be accomplished on terms favorable to the Company or that financing, if necessary, can be obtained for such acquisitions. The Company may not be able to effectively and profitably integrate the operations of acquired entities or otherwise achieve the intended benefits of such acquisitions. In addition, unforeseen expenses, difficulties, complications or delays may be encountered in connection with the expansion of operations, which could inhibit the Company's growth.

ITEM 2. PROPERTIES

For information concerning the hospitals and nursing centers operated by the Company, see "Business--Hospital Operations--Hospital Facilities," and "Business--Nursing Center Operations--Nursing Center Facilities." The Company believes that its facilities are adequate for the Company's future needs in such locations.

ITEM 3. LEGAL PROCEEDINGS

A class action lawsuit entitled A. Carl Helwig v. Vencor, Inc., et al. was filed on December 24, 1997 in the United States District Court for the Western District of Kentucky (Civil Action No. 3-97CV-8354). The class action claims were brought by an alleged stockholder of the Company against the Company and

certain executive officers and directors of the Company, namely W. Bruce Lunsford, W. Earl Reed, III, Michael R. Barr, Thomas T. Ladt, Jill L. Force and James H. Gillenwater, Jr. The complaint alleges that the Company and certain executive officers of the Company during a specified time frame violated Sections 10(b) and 20(a) of the Exchange Act, by, among other things, issuing to the investing public a series of false and misleading statements concerning the Company's current operations and the inherent value of the Company's Common Stock. The complaint further alleges that as a result of these purported false and misleading statements concerning the Company's revenues and successful acquisitions, the price of the Company's Common Stock was artificially inflated. In particular, the complaint alleges that the Company issued false and misleading financial statements during the first, second and third calendar quarters of 1997 which misrepresented and understated the impact that changes in Medicare reimbursement policies would have on the Company's core services and profitability. The complaint further alleges that the Company issued a series of materially false statements concerning the purportedly successful integration of its recent acquisitions and prospective earnings per share for 1997 and 1998 which the Company knew lacked any reasonable basis and were not being achieved. The suit seeks damages in an amount to be proven at trial, pre-judgment and post-judgment interest, reasonable attorneys' fees, expert witness fees and other costs, and any extraordinary equitable and/or injunctive relief permitted by law or equity to assure that the plaintiff has an effective remedy. The Company believes that the allegations in the complaint are without merit and intends to defend vigorously this action.

On June 19, 1997, a class action lawsuit was filed in the United States District Court for the District of Nevada on behalf of a class consisting of all persons who sold shares of Transitional common stock during the period from February 26, 1997 through May 4, 1997, inclusive. The complaint alleges that Transitional purchased shares of its common stock from members of the investing public after it had received a written offer to acquire all of Transitional's common stock and without disclosing that such an offer had been made. The complaint further alleges that defendants disclosed that there were "expressions of interest" in acquiring Transitional when, in fact, at that time, the negotiations had reached an advanced stage with actual firm offers at substantial premiums to the trading price of Transitional's stock having been made which were actively being considered by Transitional's Board of Directors. The complaint asserts claims pursuant to Sections 10(b) and 20(a) of the Exchange Act and common law principles of negligent misrepresentation and names as defendants Transitional as well as certain senior executives and directors of Transitional. The plaintiff seeks class certification, unspecified damages, attorneys' fees and costs. The Company has filed a motion to dismiss and is awaiting the court's decision. The Company is vigorously defending this action.

The Company's subsidiary, American X-Rays, Inc. ("AXR"), is the defendant in a qui tam lawsuit which was filed in the United States District Court for the Eastern District of Arkansas and served on the Company on July 7, 1997. The United States Department of Justice intervened in the suit which was brought under the Federal Civil False Claims Act. AXR provided portable X-ray services to nursing facilities (including those operated by the Company) and other healthcare providers. The Company acquired an interest in AXR when Hillhaven was merged into the Company in September 1995 and purchased the remaining interest in AXR in February 1996. The suit alleges that AXR submitted false claims to the Medicare and Medicaid programs. In conjunction with the qui tam action, the United States Attorney's Office for the Eastern District of Arkansas also is conducting a criminal investigation into the allegations contained in the qui tam complaint. The suit seeks damages in an amount of not less than $1,000,000, treble damages and civil penalties. The Company is cooperating fully in the investigation.

On June 6, 1997, Transitional announced that it had been advised that it is a target of a Federal grand jury investigation being conducted by the United States Attorney's Office for the District of Massachusetts (the "USAO") arising from activities of Transitional's formerly owned dialysis business. The

investigation involves an alleged illegal arrangement in the form of a partnership which existed from June 1987 to June 1992 between Damon Corporation and Transitional. Transitional spun off its dialysis business, now called Vivra Incorporated, on September 1, 1989. In January 1998, the Company was informed that no criminal charges would be filed against the Company. The Company has been informed that the USAO intends to file a civil action against Transitional relating to the partnership's former business. If such a suit is filed, the Company will vigorously defend the action.

As is typical in the healthcare industry, the Company is subject to claims and legal actions by patients and others in the ordinary course of business. The Company believes that all such claims and actions currently pending against it either are adequately covered by insurance or would not have a material adverse effect on the Company if decided in a manner unfavorable to the Company. In addition, the Company is subject regularly to inquiries, investigations and audits by Federal and state agencies that oversee various healthcare regulations and laws.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages (as of January 1, 1998) and present and past positions of the persons who are the current executive officers of the Company.

NAME AND AGE	PRESENT AND PAST POSITIONS
W. Bruce Lunsford, 50.....	A founder of the Company, certified public accountant and attorney, Mr. Lunsford has served as Chairman of the Board, President and Chief Executive Officer of the Company since the Company commenced operations in 1985. Mr. Lunsford is the Chairman of the Board of Atria Communities, Inc. and a director of National City Corporation, a bank holding company, Churchill Downs Incorporated, and Res-Care, Inc., a provider of residential training and support services for persons with developmental disabilities and certain vocational training services.
Michael R. Barr, 48.....	A founder of the Company, physical therapist and certified respiratory therapist, Mr. Barr has served as Chief Operating Officer and Executive Vice President of the Company since February 1996. From November 1995 to February 1996, he was Executive Vice President of the Company and Chief Executive Officer of the Company's Hospital Division. Mr. Barr served as Vice President, Operations from 1985 to November 1995. He has been a director of the Company since 1985. Mr. Barr is a director of Colorado MEDtech, Inc., a medical products and equipment company. Mr. Barr has been an executive officer of the Company since 1985.
W. Earl Reed, III, 46.....	A certified public accountant, Mr. Reed has served as a director of the Company since 1987. He has been Chief Financial Officer and Executive Vice President of the Company since

	November 1995. From 1987 to November 1995, Mr. Reed served as Vice President, Finance and Development of the Company. Mr. Reed has been an executive officer of the Company since 1987.
Thomas T. Ladt, 47.....	Mr. Ladt has served as Executive Vice President, Operations of the Company since February 1996. From November 1995 to February 1996, he served as President of the Company's Hospital Division. From 1993 to November 1995, Mr. Ladt was Vice President of the Company's Hospital Division. From 1989 to December 1993, Mr. Ladt was a Regional Director of Operations for the Company. Mr. Ladt is a director of Atria Communities, Inc. Mr. Ladt has been an executive officer of the Company since 1993.

NAME AND AGE	PRESENT AND PAST POSITIONS
Jill L. Force, 45.....	Ms. Force, a certified public accountant and attorney, has served as Senior Vice President, General Counsel and Assistant Secretary of the Company since January 1, 1998. From December 1996 to January 1998, she served as Senior Vice President, General Counsel and Secretary of the Company. From November 1995 through December 1996, she served as Vice President, General Counsel and Secretary of the Company. From 1989 to 1995, she was General Counsel and Secretary of the Company. Ms. Force is a director of Healthcare Recoveries, Inc., a provider of health insurance subrogation and related recovery services. Ms. Force has been an executive officer of the Company since 1995.
Richard E. Chapman, 48.....	Mr. Chapman has served as Senior Vice President and Chief Information Officer of the Company since October 1997. From March 1993 to October 1997, Mr. Chapman was Senior Vice President of Information Systems of Columbia/HCA Healthcare Corp., Vice President of Galen Health Care, Inc. from March 1993 to August 1993, and of Humana Inc. from 1974 to March 1993. Mr. Chapman has been an executive officer of the Company since 1997.
James H. Gillenwater, Jr., 40.....	Mr. Gillenwater has served as Senior Vice President, Planning and Development of the Company since December 1996. From November 1995 through December 1996, he served as Vice President, Planning and Development of the Company. From 1989 to November 1995, he was Director of Planning and Development of the Company. Mr. Gillenwater has been an executive officer of the Company since 1995.
Richard A. Lechleiter, 39....	Mr. Lechleiter, a certified public accountant, has served as Vice President, Finance and Corporate Controller of the Company since November 1995. From June 1995 to November 1995, he was Director of Finance of the Company. Mr. Lechleiter was Vice President and Controller of Columbia/HCA Healthcare Corp. from September

1993 to May 1995, of Galen Health Care, Inc. from March 1993 to August 1993, and of Humana Inc. from September 1990 to February 1993. Mr. Lechleiter has been an executive officer of the Company since 1995.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET PRICE FOR COMMON STOCKAND DIVIDEND HISTORY

The Company's Common Stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol of VC. The Company has approximately 40,000 stockholders based on the number of record holders of Common Stock and an estimate of the number of individual participants represented by security position listings. The prices in the table below, for the calendar quarters indicated, represent the high and low sales prices for the Common Stock as reported by the NYSE Composite Tape. No cash dividends have been paid on the Common Stock during such period.

The Company does not intend to pay cash dividends on its Common Stock for the foreseeable future so that it may reinvest its earnings in the development of its business and reduce indebtedness. The payment of dividends in the future will be at the discretion of the Board of Directors. Restrictions imposed by the Company's existing debt obligations also may limit the payment of dividends by the Company.

CALENDAR YEAR	SALES PRICE OF COMMON STOCK	
	HIGH	LOW
1996:		
First Quarter	$39 7/8	$31 1/2
Second Quarter	35	28 1/8
Third Quarter	34 1/2	25 1/2
Fourth Quarter	33 1/4	27 1/2
1997:		
First Quarter	40 3/8	29
Second Quarter	45 1/8	36 5/8
Third Quarter	44 3/8	37 3/8
Fourth Quarter	43 5/16	23

ITEM 6. SELECTED FINANCIAL DATA

VENCOR, INC.
SELECTED FINANCIAL DATA
AS OF AND FOR THE YEARS ENDED DECEMBER 31
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND STATISTICS)

	1997	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					

Revenues	$3,116,004	$2,577,783	$2,323,956	$2,032,827	$1,727,436
Salaries, wages and benefits	1,788,053	1,490,938	1,360,018	1,167,181	985,163
Supplies	303,140	261,621	233,066	216,587	186,473
Rent	89,474	77,795	79,476	79,371	74,323
Other operating expenses	490,327	405,797	372,657	312,087	270,014
Depreciation and amortization	123,865	99,533	89,478	79,519	69,126
Interest expense	102,736	45,922	60,918	62,828	73,559
Investment income	(6,057)	(12,203)	(13,444)	(13,126)	(16,056)
Non-recurring transactions	-	125,200	109,423	(4,540)	5,769
	2,891,538	2,494,603	2,291,592	1,899,907	1,648,371
Income before income taxes	224,466	83,180	32,364	132,920	79,065
Provision for income taxes	89,338	35,175	24,001	46,781	10,089
Income from operations	135,128	48,005	8,363	86,139	68,976
Extraordinary loss on extinguishment of debt, net of income taxes	(4,195)	-	(23,252)	(241)	(2,217)
Cumulative effect on prior years of a change in accounting for income taxes	-	-	-	-	(1,103)
Net income (loss)	$ 130,933	$ 48,005	$ (14,889)	$ 85,898	$ 65,656
Earnings (loss) per common share:					
Basic:					
Income from operations	$ 1.96	$ 0.69	$ 0.22	$ 1.41	$ 1.28
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.38)	-	(0.04)
Cumulative effect on prior years of a change in accounting for income taxes	-	-	-	-	(0.02)
Net income (loss)	$ 1.90	$ 0.69	$ (0.16)	$ 1.41	$ 1.22
Diluted:					
Income from operations	$ 1.92	$ 0.68	$ 0.29	$ 1.28	$ 1.22
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.32)	-	(0.04)
Cumulative effect on prior years of a change in accounting for income taxes	-	-	-	-	(0.02)
Net income (loss)	$ 1.86	$ 0.68	$ (0.03)	$ 1.28	$ 1.16
Shares used in computing earnings (loss) per common share:					
Basic	68,938	69,704	61,196	55,522	51,985
Diluted	70,359	70,702	71,967	69,014	60,640
FINANCIAL POSITION:					
Working capital	$ 445,086	$ 320,123	$ 239,666	$ 129,079	$ 114,339
Assets	3,334,739	1,968,856	1,912,454	1,656,205	1,563,350
Long-term debt	1,919,624	710,507	778,100	746,212	784,801
Stockholders' equity	905,350	797,091	772,064	596,454	485,550
OPERATING DATA:					
Number of hospitals	60	38	36	33	26
Number of hospital licensed beds	5,273	3,325	3,263	2,511	2,198
Number of hospital patient days	767,810	586,144	489,612	403,623	293,367
Number of nursing centers	309	313	311	310	325
Number of nursing center licensed beds	40,383	39,619	39,480	39,423	40,759

Number of nursing center patient days.....	12,622,238	12,566,763	12,569,600	12,654,016	12,770,435
Number of Vencare contracts.....	3,877	4,346	4,072	2,648	1,628

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Selected Financial Data in Item 6 and the consolidated financial statements included in this Report set forth certain data with respect to the financial position, results of operations and cash flows of the Company which should be read in conjunction with the following discussion and analysis.

GENERAL

The Company is one of the largest providers of long-term healthcare services in the United States. At December 31, 1997, the Company operated 60 long-term acute care hospitals (5,273 licensed beds), 309 nursing centers (40,383 licensed beds) and the Vencare contract services business which primarily provides respiratory and rehabilitation therapies, medical services and pharmacy management services to approximately 2,900 healthcare facilities.

HILLHAVEN MERGER. The Hillhaven Merger was consummated on September 28, 1995. At the time of the Hillhaven Merger, Hillhaven operated 311 nursing centers, 56 retail and institutional pharmacies and 23 independent and assisted living communities with 3,122 units. Annualized revenues approximated $1.7 billion. See Note 2 of the Notes to Consolidated Financial Statements for a description of the Hillhaven Merger.

Prior to its merger with the Company, Hillhaven completed a merger with Nationwide Care, Inc. ("Nationwide") (the "Nationwide Merger") on June 30, 1995. At the time of the Nationwide Merger, Nationwide operated 23 nursing centers containing 3,257 licensed beds and four independent and assisted living communities with 442 units. Annualized revenues approximated $125 million. See Note 3 of the Notes to Consolidated Financial Statements for a description of the Nationwide Merger.

As discussed in the Notes to Consolidated Financial Statements, the Hillhaven Merger and the Nationwide Merger have been accounted for by the pooling-of-interests method. Accordingly, the accompanying consolidated financial statements and financial and operating data included herein give retroactive effect to these transactions and include the combined operations of the Company, Hillhaven and Nationwide for all periods presented.

STOCK OFFERINGS OF ATRIA. In August 1996, the Company completed the initial public offering of Atria Communities, Inc. ("Atria"), its independent and assisted living business, through the issuance of 5,750,000 shares of Atria common stock (the "Atria IPO"). For accounting purposes, the accounts of Atria continued to be consolidated with those of the Company and minority interests in the earnings and equity of Atria were recorded from the consummation date of the Atria IPO through June 30, 1997. In July 1997, Atria completed a secondary equity offering which reduced the Company's ownership percentage to less than 50%. Accordingly, the Company's investment in Atria beginning July 1, 1997 has been accounted for under the equity method. At December 31, 1997, the Company owned 10,000,000 shares, or approximately 43%, of Atria's outstanding common stock. See Note 4 of the Notes to Consolidated Financial Statements for a description of the Atria stock offerings.

THERATX MERGER. On March 21, 1997, the merger with TheraTx was completed following a cash tender offer (the "TheraTx Merger"). At the time of the TheraTx Merger, TheraTx primarily provided rehabilitation and respiratory therapy management services and operated 26 nursing centers. Annualized revenues approximated $425 million.

The TheraTx Merger has been accounted for by the purchase method, which

requires that the accounts of acquired entities be included with those of the Company since the acquisition of a controlling interest. Accordingly, the accompanying consolidated financial statements include the operations of TheraTx since March 21, 1997. See Note 5 of the Notes to Consolidated Financial Statements for a description of the TheraTx Merger.

TRANSITIONAL MERGER. On June 24, 1997, the Company acquired approximately 95% of the outstanding common stock of Transitional through a cash tender offer, after which time the operations of Transitional were consolidated with those of the Company in accordance with the purchase method of accounting. On August 26,

1997, the merger with Transitional was completed (the "Transitional Merger"). At the time of the Transitional Merger, Transitional operated 19 long-term acute care hospitals and provided respiratory therapy management services. Annualized revenues approximated $350 million. In addition, Transitional owns a 44% voting equity interest (61% ownership interest) in Behavorial Healthcare Corporation, an operator of psychiatric and behavioral clinics. See Note 6 of the Notes to Consolidated Financial Statements for a description of the Transitional Merger.

RESULTS OF OPERATIONS

A summary of key operating data follows:

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
REVENUES (IN THOUSANDS):			
Hospitals	$ 785,829	$ 551,268	$ 456,486
Nursing centers	1,722,416	1,615,141	1,512,679 (a)
Vencare	642,471	399,068	316,254
Atria	31,199	51,846	47,976
	3,181,915	2,617,323	2,333,395
Elimination	(65,911)	(39,540)	(9,439)
	$3,116,004	$2,577,783	$2,323,956
HOSPITAL DATA:			
Revenue mix %:			
Medicare	63.0	59.4	57.5
Medicaid	8.1	12.3	11.7
Private and other	28.9	28.3	30.8
Patient days:			
Medicare	520,144	375,128	314,009
Medicaid	96,490	97,521	76,781
Private and other	151,176	113,495	98,822
	767,810	586,144	489,612
Average daily census	2,104	1,601	1,341
Occupancy %	52.9	53.7	47.6
NURSING CENTER DATA:			
Revenue mix %:			
Medicare	32.1	29.7	28.6
Medicaid	42.9	44.3	44.5
Private and other	25.0	26.0	26.9
Patient days:			
Medicare	1,610,470	1,562,645	1,511,259

Medicaid	8,152,503	8,191,450	8,146,881
Private and other	2,859,265	2,812,668	2,911,460
	12,622,238	12,566,763	12,569,600
Average daily census	34,581	34,335	34,437
Occupancy %	90.5	91.9	92.2
ANCILLARY SERVICES DATA:			
End of period data:			
Number of Vencare single service contracts	3,846	4,346	4,072
Number of Vencare full service contracts	31	-	-
	3,877	4,346	4,072

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(a) Includes a charge of $24.5 million recorded in connection with the Hillhaven Merger.

Hospital revenues increased in both 1997 and 1996 from the acquisition of facilities and growth in same-store patient days. Hospital patient days rose 31% to 767,810 in 1997 and 20% to 586,144 in 1996. Same-store patient days grew 6% in 1997. Revenues attributable to the Transitional Merger were $138.9 million. Hospital revenues in 1997 were also favorably impacted by increases in both Medicare and private patient days (for which payment rates are generally higher than Medicaid) and a decline in Medicaid patient days. Price increases in both 1997 and 1996 were not significant.

During 1997, the Company sold 28 under-performing or non-strategic nursing centers and acquired 26 nursing centers in connection with the TheraTx Merger. Excluding the effect of these sales and acquisitions, nursing center revenues increased 3%, while patient days declined 2%. The increase in same-store nursing center revenues resulted primarily from price increases and a 3% increase in Medicare patient days.

Excluding the effect of sales and acquisitions, nursing center revenue growth was adversely impacted by a 5% decline in private patient days in 1997. In an effort to attract increased volumes of Medicare and private payment patients, the Company implemented a plan to expend approximately $200 million during 1997 and 1998 to improve existing facilities and expand the range of services provided to accommodate higher acuity patients.

Vencare revenues for 1997 include $199.4 million related to contract rehabilitation therapy and certain other ancillary service businesses acquired as part of the TheraTx Merger. Excluding the TheraTx Merger and other sales and acquisitions, Vencare revenues grew 12% in 1997 and 26% in 1996 primarily as a result of growth in volume of ancillary services provided per contract and, in 1996, growth in the number of contracts. Vencare ancillary service contracts in effect at December 31, 1997 totaled 3,877 compared to 4,346 at December 31, 1996 and 4,072 at December 31, 1995. During 1997, the Company terminated approximately 700 contracts which did not meet certain growth criteria and eliminated approximately 670 contracts by combining previously separate pharmacy, enteral and infusion therapy contracts.

Pharmacy revenues (included in Vencare operations) declined 4% to $167.1 million in 1997 from $174.1 million in the same period last year. The decline was primarily attributable to the effects of the restructuring of the institutional pharmacy business initiated in the fourth quarter of 1996 and the sale of the retail pharmacy outlets in January 1997. Pharmacy revenues rose 3% in 1996 from $168.8 million in 1995.

As discussed in Note 4 of the Notes to Consolidated Financial Statements, the decline in Atria revenues in 1997 resulted from a change to the equity

method of accounting for the Company's investment in Atria beginning July 1, 1997. The increase in 1996 revenues resulted primarily from price increases, growth in occupancy and expansion of ancillary services.

In the fourth quarter of 1996, the Company recorded pretax charges aggregating $125.2 million ($79.9 million net of tax) primarily to complete the integration of Hillhaven. In November 1996, the Company executed a definitive agreement to sell certain under-performing or non-strategic nursing centers. A charge of $65.3 million was recorded in connection with the planned disposition of these nursing centers. In addition, the Company's previously independent institutional pharmacy business, acquired as part of the Hillhaven Merger, was integrated into Vencare, resulting in a charge of $39.6 million related primarily to costs associated with employee severance and benefit costs (approximately 500 employees), facility close down expenses and the write-off of certain deferred costs for services to be discontinued. A provision for loss totaling $20.3 million related to the planned replacement of one hospital and three nursing centers was also recorded in the fourth quarter. See Note 9 of the Notes to Consolidated Financial Statements.

During 1997, the Company sold 28 of the 34 non-strategic nursing centers planned for disposition. Proceeds from the transaction aggregated $11.2 million. In addition, one facility was sold and one was closed in January 1998, and two nursing centers are expected to be sold pending regulatory approvals. In February 1998, the Company was unable to receive the necessary licensure approvals to sell two non-strategic nursing centers for which provisions for loss had been recorded in 1996. The Company intends to continue to operate these facilities. Accrued provisions for loss at December 31, 1997 were not significant. The reorganization of the institutional pharmacy business was substantially completed in 1997, which included the elimination of duplicative administrative functions and establishment of the pharmacy operations as an integrated part of the Company's hospital operations. The Company expects that construction activities related to the replacement of one hospital and three nursing centers will be completed in 1998 and 1999. Accrued provision for loss related to the facilities to be sold or replaced aggregated $22.2 million at December 31, 1997.

In the third quarter of 1995, the Company recorded pretax charges aggregating $128.4 million ($89.9 million net of tax) primarily in connection with the consummation of the Hillhaven Merger. The charges included

(i) $23.2 million of investment advisory and professional fees, (ii) $53.8 million of employee benefit plan and severance costs (approximately 500 employees), (iii) $26.9 million of losses associated with the planned disposition of certain nursing center properties and (iv) $24.5 million of charges to reflect the Company's change in estimates of accrued revenues recorded in connection with certain prior-year nursing center third-party reimbursement issues. Operating results for 1995 also include pretax charges of $5.5 million ($3.7 million net of tax) recorded in the second quarter related primarily to the Nationwide Merger. See Note 9 of the Notes to Consolidated Financial Statements.

Income from operations for 1997 totaled $135.1 million, compared to $48.0 million and $8.3 million for 1996 and 1995, respectively. Excluding the effect of non-recurring transactions, income from operations increased 6% in 1997 from $127.9 million ($1.81 per share-diluted) in 1996 and 25% in 1996 from $101.9 million ($1.45 per share-diluted) in 1995.

Operating results in 1997 were adversely impacted by a decline in fourth quarter income from operations to $27.2 million ($0.40 per share-diluted) from $35.9 million ($0.51 per share-diluted) in the fourth quarter of 1996 (excluding non-recurring charges). The reduction in earnings resulted primarily from (i) a loss of certain large Vencare contracts and growth in costs associated with the shift in Vencare product mix from fee-for-service to fixed fee arrangements in anticipation of the new prospective payment system affecting Medicare reimbursement for nursing centers expected to take effect

on July 1, 1998 and (ii) operating losses associated with the Transitional Merger. Vencare revenues were $158.2 million in the fourth quarter of 1997 compared to the previous quarter total of $183.2 million. In the fourth quarter of 1997, the sale of certain non-strategic assets acquired in connection with the TheraTx Merger resulted in a $13.5 million decline in Vencare revenues from the third quarter. See "--Healthcare Reform Legislation."

In 1997, the Company initiated the marketing of its Vencare full-service ancillary services contracts to provide a full range of services to nursing centers not operated by the Company. The change in the Company's marketing strategy for selling ancillary services was developed in response to the anticipated prospective payment system established under the Budget Act. Management believes that by bundling services through one provider, nursing centers can provide quality patient care more efficiently with the added benefit of centralized patient medical records. Under the new prospective payment system, ancillary services provided by nursing centers will be subject to fixed payments. In this new environment, management believes that its full-service ancillary services contracts will enhance the ability of nursing center operators to manage effectively the costs of providing quality patient care.

As the nursing center industry adapts to the cost containment measures inherent in the new prospective payment system, management believes that the volume of ancillary services provided per patient day to nursing center patients could decline. In addition, as a result of these changes, many nursing centers may elect to provide ancillary services to patients through internal staff and will no longer contract with outside parties for ancillary services. For these reasons and others, since the enactment of the Budget Act, sales of new contracts have declined and may continue to decline subject to the Company's success in implementing its Vencare comprehensive, full-service contract sales strategy.

Operating results (including interest costs) associated with the hospitals acquired in the Transitional Merger reduced income from operations in the fourth quarter by $3.7 million or $0.05 per share and $9.2 million or $0.13 per share for the second half of 1997.

Excluding the effect of non-recurring transactions, growth in operating income in 1996 resulted primarily from increased hospital volume, growth in higher margin ancillary services in both Vencare and the nursing center business and realization of substantial synergies resulting from the Hillhaven Merger. Management believes that additional revenues resulting from patient cross-referrals within the healthcare network created by the Hillhaven Merger aggregated approximately $80 million in 1996. In addition, cost reductions from elimination of duplicative functions, increased cost efficiencies and refinancing of long-term debt increased 1996 pretax income by approximately $20 million.

For more information concerning the provision for income taxes as well as information regarding differences between effective income tax rates and statutory rates, see Note 11 of the Notes to Consolidated Financial Statements.

LIQUIDITY

Cash provided by operations totaled $270.9 million for 1997 compared to $183.5 million for 1996 and $113.6 million for 1995. Despite growth in operating cash flows during each of the past three years, cash flows from operations have been adversely impacted by growth in the outstanding days of revenues in accounts receivable. Days of revenues in accounts receivable increased to 67 at December 31, 1997 compared to 54 at December 31, 1996. Growth in accounts receivable was primarily attributable to growth in rehabilitation contracts resulting from the TheraTx Merger (collection periods for which typically require in excess of three months), delays associated with

the conversion of Transitional hospital financial systems and, in 1997 and 1996, the restructuring of the Company's pharmacy operations. Management believes that certain of these factors may have an adverse effect on cash flows from operations in 1998.

In connection with the TheraTx Merger and the Transitional Merger, the Company increased the amount of its bank credit facility from $1.0 billion to $2.0 billion in 1997 (the "Bank Facility"). At December 31, 1997, available borrowings under the Bank Facility approximated $822 million.

As discussed in Note 13 of the Notes to Consolidated Financial Statements, the Company completed the $750 million private placement of its 8 5/8% Senior Subordinated Notes due 2007 (the "Notes") in July 1997. The net proceeds of the offering were used to reduce outstanding borrowings under the Bank Facility.

The Company has agreed to guarantee up to $75 million of Atria's $200 million bank credit facility (the "Atria Bank Facility") at December 31, 1997 and lesser amounts each year thereafter through 2000. At December 31, 1997, there were no outstanding guaranteed borrowings under the Atria Bank Facility.

Working capital totaled $445.1 million at December 31, 1997 compared to $320.1 million at December 31, 1996. Management believes that current levels of working capital are sufficient to meet expected liquidity needs.

At December 31, 1997, the Company's ratio of debt to debt and equity approximated 68% compared to 49% at December 31, 1996. Management intends to reduce the Company's leverage ratio from current levels. The primary sources of funds expected to reduce long-term debt in 1998 include proceeds from the sale of certain non-strategic assets, including the Company's investment in Atria.

In connection with the Reorganization Transactions, the Company will be required to refinance, repurchase or assign substantially all of its long-term debt, including the Bank Facility and the Notes. In lieu of repurchasing the Notes, the Company may assign to Operating Company, and Operating Company would assume, the Notes. Management is considering a capitalization plan for both Operating Company and Realty Company to be effected on or before the date of the Distribution in which the Company's long-term debt is expected to be refinanced, repurchased or assumed by either Operating Company or Realty Company at interest rates and terms which may be less favorable than those of the Company's current debt arrangements. There can be no assurance that sufficient financing will be available on terms that are acceptable to either Operating Company or Realty Company, or that either entity will have the financial resources necessary to implement its respective acquisition and development plans following the Distribution.

CAPITAL RESOURCES

Excluding acquisitions, capital expenditures totaled $281.7 million for 1997 compared to $135.0 million for 1996 and $136.9 million for 1995 which include $22.6 million, $7.4 million and $4.0 million related to Atria, respectively. Planned capital expenditures in 1998 (excluding acquisitions) are expected to approximate $250 million to $300 million and include significant expenditures related to nursing center improvements, construction of additional nursing centers, information systems and administrative facilities. If the Reorganization Transactions are consummated, proceeds from the sale of certain newly constructed facilities to Realty Company in 1998 could approximate $125 million to $150 million. Management believes that its capital expenditure program is adequate to expand, improve and equip existing facilities.

During 1997, the Company expended approximately $359.4 million and $615.6 million in connection with the TheraTx Merger and the Transitional Merger, respectively. These acquisitions were financed primarily through the issuance

of long-term debt. See Notes 5 and 6 of the Notes to Consolidated Financial Statements for a discussion of these acquisitions. The Company also expended $36.6 million, $26.2 million and $59.3 million for acquisitions of new facilities (and related healthcare businesses) and previously leased nursing centers during 1997, 1996, and 1995, respectively, of which $14.6 million, $5.2 million and $44.2 million related to additional hospital facilities. Subject to certain limitations related to management's plans to reduce long-term debt discussed above, the Company intends to acquire additional hospitals, nursing centers and ancillary service businesses in the future.

Capital expenditures during the last three years were financed primarily through additional borrowings, internally generated funds and, in 1996, from the collection of notes receivable aggregating $78.2 million. In addition, capital expenditures in 1995 were financed through the public offering of 2.2 million shares of the Company's Common Stock, the proceeds from which totaled $66.5 million. The Company intends to finance a substantial portion of its capital expenditures with internally generated funds and additional long-term debt. Sources of capital include available borrowings under the Bank Facility, public or private debt and equity. At December 31, 1997, the estimated cost to complete and equip construction in progress approximated $119 million.

In the fourth quarter of 1997, the Company repurchased 2,925,000 shares of the Company's Common Stock at an aggregate cost of $81.7 million. Repurchases of 1,950,000 shares of the Company's Common Stock in 1996 totaled $55.3 million. These transactions were financed primarily through borrowings under the Bank Facility.

At December 31, 1997, the Company was a party to certain interest rate swap agreements that eliminate the impact of changes in interest rates on $400 million of outstanding floating rate debt. One agreement for $100 million expires in April 1998 and provides for fixed rates at 5.7% plus 3/8% to 1 1/8%. A second agreement on $300 million of floating rate debt provides for fixed rates at 6.4% plus 3/8% to 1 1/8% and expires in $100 million increments in May 1999, November 1999 and May 2000. The fair values of the swap agreements are not recognized in the consolidated financial statements. See Notes 1 and 13 of the Notes to Consolidated Financial Statements.

As discussed in Note 13 of the Notes to Consolidated Financial Statements, the Company called for redemption all of its outstanding convertible debt securities in the fourth quarter of 1995, resulting in the issuance of approximately 7,259,000 shares of the Company's Common Stock. Approximately $34.4 million of the convertible securities were redeemed in exchange for cash equal to 104.2% of face value plus accrued interest. These transactions had no material effect on earnings per common share.

HEALTHCARE REFORM LEGISLATION

The Budget Act, enacted in August 1997, contains extensive changes to the Medicare and Medicaid programs intended to reduce the projected amount of increase in payments under those programs by $115 billion and $13 billion, respectively, over the next five years. Under the Budget Act, annual growth rates for Medicare will be reduced from over 10% to approximately 7.5% for the next five years based on specific program baseline projections from the last five years. Virtually all spending reductions will come from providers and changes in program components. The Budget Act affects reimbursement systems for each of the Company's operating units.

The Budget Act will reduce payments made to the Company's hospitals by reducing TEFRA incentive payments, allowable costs for capital expenditures and bad debts, and payments for services to patients transferred from a PPS hospital. The reductions in allowable costs for capital expenditures became effective October 1, 1997. The reductions in the TEFRA incentive payments and allowable costs for bad debts are expected to be effective beginning on September 1, 1998 with respect to the Company's hospitals. The reductions for payments for services to patients transferred from a PPS hospital are expected to be effective October 1, 1998.

The Budget Act also requires the establishment of a prospective payment system for nursing centers for cost reporting periods beginning on or after July 1, 1998. During the first three years, the per diem rates for nursing centers will be based on a blend of facility-specific costs and Federal costs. Thereafter, the per diem rates will be based solely on Federal costs. The rates for such services have not been established or published. The payments received under the new prospective payment system will cover all services for Medicare patients, including all ancillary services, such as respiratory therapy, physical therapy, occupational therapy, speech therapy and certain covered drugs. The Budget Act also requires an adjustment to the payment system for home health services for cost reporting periods beginning on or after October 1, 1997. The new system will adjust per visit limits and establish per beneficiary annual spending limits. A prospective payment system for home health services will be established by October 1, 1999.

Management believes that the Budget Act will adversely impact its hospital business by reducing the payments previously described. The TEFRA limits have not had a material adverse effect on the Company's results of operations, and the Company does not expect that the TEFRA limits will have a material adverse effect on its results of operations in 1998. The reductions in the TEFRA incentive payments which are expected to be effective beginning on September 1, 1998 with respect to the Company's hospitals, will have an adverse impact on hospital revenues in the future.

Based on information currently available, management believes that the new prospective payment system will benefit nursing center operations because (i) management believes that the average acuity levels of its patients will exceed the national average (which should result in increased payments per patient day) and (ii) because the Company expects to benefit from its ability to reduce the cost of providing ancillary services to patients in its facilities. The new Medicare prospective payment rates and related patient acuity measures will be established by HCFA, and as of the date hereof the Company does not know what these amounts will be. Management believes that its anticipated growth in nursing center profitability would be reduced if Congress acts to delay the effective date of the prospective payment system. As the nursing center industry adapts to the cost containment measures inherent in the new prospective payment system, management believes that the volume of ancillary services provided per patient day to nursing center patients could decline. In addition, as a result of these changes, many nursing centers may elect to provide ancillary services to their patients through internal staff and will no longer contract with outside parties for ancillary services. For these reasons and others, since the enactment of the Budget Act, sales of new contracts have declined and may continue to decline subject to the Company's success in implementing its Vencare comprehensive, full-service contracts sales strategy. The Company is actively implementing strategies and operational modifications to address changes in the Federal reimbursement system.

In January 1998, HCFA issued rules changing Medicare reimbursement guidelines for therapy services provided by the Company (including the rehabilitation contract therapy business acquired as part of the TheraTx Merger). Under the new rules, HCFA established salary equivalency limits for speech and occupational therapy services and revised existing limits for physical and respiratory therapy services. The limits are based on a blend of data from wage rates for hospitals and nursing centers and include salary, fringe benefit and expense factors. Rates are defined by specific geographic market areas, based upon a modified version of the hospital wage index. The new limits are effective for services provided on or after April 1, 1998 and are expected to impact negatively Vencare operating results in 1998. The Company will continue to charge client nursing centers in accordance with the revised guidelines until such nursing centers transition to the new prospective payment system. Under the new prospective payment system, the reimbursement for these services provided to nursing center patients will be a component of the total reimbursement allowed per nursing center patient and the salary equivalency guidelines will no longer be applicable. Most of the Company's client nursing centers are expected to transition to the new

prospective payment system on or before January 1, 1999.

There also continues to be state legislative proposals that would impose more limitations on government and private payments to providers of healthcare services such as the Company. Many states have enacted or are considering enacting measures that are designed to reduce their Medicaid expenditures and to make certain changes to private healthcare insurance. Some states also are considering regulatory changes that include a

moratorium on the designation of additional long-term care hospitals and changes in Medicaid reimbursement system applicable to the Company's hospitals. There are also a number of legislative proposals including cost caps and the establishment of Medicaid prospective payment systems for nursing centers. Moreover, by repealing the Boren Amendment, the Budget Act eases existing impediments on the states' ability to reduce their Medicaid reimbursement levels.

There can be no assurance that the Budget Act, new salary equivalency rates, future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs will not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Medicare revenues as a percentage of total revenues were 34%, 31% and 30% for 1997, 1996 and 1995, respectively, while Medicaid percentages of revenues approximated 26%, 31% and 33% for the respective periods.

OTHER INFORMATION

In June 1997, the Company announced that it had entered into a strategic alliance with CNA Financial Corporation ("CNA") to develop and market a long-term care insurance product. Under this arrangement, CNA will offer a long-term care insurance product which features as a benefit certain discounts for services provided by members of the Company's network of long-term care providers. Members of this network will act as preferred providers of care to covered insureds. CNA will be responsible for underwriting, marketing and distributing the product through its national distribution network and will provide administrative insurance product support. The Company will reinsure 50% of the risk through a newly formed wholly-owned insurance company and will provide utilization review services. Management believes that the alliance with CNA will not have a material impact on the Company's liquidity, financial position or results of operations in 1998.

The Company has initiated a program to prepare its information systems, clinical equipment and facilities for the year 2000. An external professional organization has been engaged to assist in the management and implementation of this program. Management is currently implementing a plan to replace substantially all of the Company's financial information systems before the year 2000, the costs of which have not been determined. Most of these costs will be capitalized and amortized over a three to five year period. Required modifications to the Company's proprietary VenTouch(TM) and Therasys(TM) clinical information systems are minimal and will generally be accomplished through the use of existing internal resources. Clinical equipment in the Company's facilities will generally be replaced or modified as needed through the use of external professional resources. Incremental costs to complete the necessary changes to clinical equipment could approximate $10 million to $20 million over the next two years.

Various lawsuits and claims arising in the ordinary course of business are pending against the Company. Resolution of litigation and other loss contingencies is not expected to have a material adverse effect on the Company's liquidity, financial position or results of operations. See Notes 15 and 23 of the Notes to Consolidated Financial Statements.

Both the Bank Facility and the Notes contain customary covenants which

require, among other things, maintenance of certain financial ratios and limit amounts of additional debt and repurchases of Common Stock. The Company was in compliance with all such covenants at December 31, 1997. If the Bank Facility is not refinanced in connection with the Reorganization Transactions, the Distribution will violate certain covenants contained therein. Management expects that Operating Company will be in compliance with all covenants related to the Notes which may be assumed by Operating Company in connection with the Reorganization Transactions. Management is considering a capitalization plan for Operating Company and Realty Company to be effected on or before the Distribution date in which substantially all of the Company's long-term debt is expected to be refinanced or assumed by either Operating Company or Realty Company. See "-- Liquidity."

As discussed in Note 1 of the Notes to Consolidated Financial Statements, on December 31, 1997, Statement of Financial Accounting Standards No. 128 required the Company to change the method of computing earnings per common share on a retroactive basis. The change in calculation method did not have a material impact on previously reported earnings per common share.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is included in appendix pages F-2 through F-25 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEMS 10, 11, 12 AND 13. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT; EXECUTIVE COMPENSATION; SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT; AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by these Items other than the information set forth above under Part I, "Executive Officers of the Registrant," is omitted because the Company is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Report which includes the required information. The required information contained in the Company's proxy statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Index to Consolidated Financial Statements and Financial Statement Schedules:

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(a) All other schedules have been omitted because the required information is not present or not present in material amounts.

(a)(2) Index to Exhibits:

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
3.1	Certificate of Incorporation of the Company, as amended. Exhibit 3 to the Company's Form 10-Q for the quarterly period ended September 30, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.
3.2	Third Amended and Restated Bylaws of the Company.
4.1	Specimen Common Stock Certificate. Exhibit 4.1 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.
4.2	Article IV of the Certificate of Incorporation of the Company is included in Exhibit 3.1.
4.3	$2.0 billion Amended and Restated Credit Agreement dated as of May 30, 1997, amending and restating the Credit Agreement dated as of March 17, 1997, as amended as of March 31, 1997 and April 22, 1997, among the Company, the various banks party thereto, the Swingline Bank party, the LC Issuing Banks party thereto, the Managing Agents and Co-Agents party thereto, Morgan Guaranty Trust Company of New York, as Documentation Agent and Collateral Agent, and Nationsbank, N.A., as Administrative Agent. Exhibit (b)(3) to Amendment No. 8 to the Statement on Schedule 14D-1 of the Company and LV Acquistion Corp., dated May 7, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.
4.4	Amendment No. 1, dated as of June 24, 1997, to the $2.0 billion Amended and Restated Credit Agreement dated as of May 30, 1997, amending and restating the Credit Agreement dated of March 17, 1997, as amended as of March 31, 1997 and April 22, 1997, among the Company, the various banks party thereto, the Swingline Bank party, the LC Issuing Banks party thereto, the Managing Agents and Co-Agents party thereto, Morgan Guaranty Trust Company of New York, as Documentation Agent and Collateral Agent, and Nationsbank, N.A., as Administrative Agent. Exhibit 4.3 to the Company's Form 10-Q for the quarterly period ended June 30, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.
4.5	Amendment No. 2, dated as of October 24, 1997, to the $2.0 billion Amended and Restated Credit Agreement dated as of May 30, 1997, as amended as of June 24, 1997 among the Company, the various banks party thereto, the Swingline Bank party, the LC Issuing Banks party thereto, the Managing Agents and Co-Agents party thereto, Morgan Guaranty Trust Company of New York, as Documentation Agent and Collateral Agent, and Nationsbank, N.A., as Administrative Agent.

4.6	Form of 8 5/8% Senior Subordinated Notes due 2007. Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 21, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.
4.7	Indenture dated as of July 21, 1997, between the Company and The Bank of New York, as Trustee. Exhibit 4.2 to the Company's Current Report on Form 8-K dated July 21, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.
4.8	Rights Agreement dated as of July 20, 1993 between the Company and National City Bank, as Rights Agent. Exhibit 1 to the Company's Registration Statement on Form 8-A (Comm. File No. 1-10989) is hereby incorporated by reference.
4.9	First Amendment to Rights Agreement dated as of August 11, 1995 between the Company and National City Bank, as Rights Agent. Exhibit 2 to the Company's Registration Statement on Form 8-A/A (Comm. File No. 1-10989) is hereby incorporated by reference.
4.10	Second Amendment to Rights Agreement dated February 1, 1998 between the Company and National City Bank, as Rights Agent. Exhibit 1 to the Company's Registration Statement on Form 8-A/A (Reg. No. 33-30212) is hereby incorporated by reference.
10.1*	Directors and Officers Insurance and Company Reimbursement Policies. Exhibit 10.1 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
10.2*	Vencor Retirement Savings Plan Amended and Restated as of January 1, 1997.
10.3*	Amendment No. 1 to the Vencor Retirement Savings Plan Amended and Restated dated July 1, 1997.
10.4*	Amendment No. 2 to the Vencor Retirement Savings Plan Amended and Restated dated December 31, 1997.
10.5*	Amendment No. 3 to the Vencor Retirement Savings Plan Amended and Restated dated December 31, 1997.
10.6*	Vencor, Inc. 401(k) Master Trust Agreement dated January 1, 1997 by and between the Company and Wachovia Bank of North Carolina, N.A.
10.7*	Amendment No. 1 to Vencor, Inc. 401(k) Master Trust Agreement by and between the Company and Wachovia Bank of North Carolina, N.A.
10.8*	Retirement Savings Plan for Certain Employees of Vencor and its Affiliates Amended and Restated as of January 1, 1997.
10.9*	1987 Non-Employee Directors Stock Option Plan. Exhibit 10.10 to the Company's Registration Statement on Form S-1 (Reg. No. 33-30212) is hereby incorporated by reference.
10.10*	1987 Incentive Compensation Program. Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Reg. No. 33-30212) is hereby incorporated by reference.
10.11*	Amendment to the Vencor, Inc. 1987 Incentive Compensation Program dated May 15, 1991. Exhibit 4.4 to the Company's Registration Statement on Form S-8 (Reg. No. 33-40949) is hereby incorporated by reference.
10.12*	Amendments to the Vencor, Inc. 1987 Incentive Compensation Program dated May 18, 1994. Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 1994 (Comm. File No. 1-10989) is hereby incorporated by reference.
10.13*	Amendment to the Vencor, Inc. 1987 Incentive Compensation Program dated February 15, 1995. Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 1994 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.14* Amendment to the Vencor, Inc. 1987 Incentive Compensation Program dated September 27, 1995. Exhibit 10.17 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.15* Amendment to the Vencor, Inc. 1987 Incentive Compensation Program dated May 15, 1996. Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1996 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.16* Form of Vencor, Inc. Incentive Compensation Program Performance Share Award, as amended. Exhibit 10.18 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.17* Vencor, Incorporated Non-Employee Directors Deferred Compensation Plan. Exhibit 10.19 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.18* Amendment to Vencor, Incorporated Non-Employee Directors Deferred Compensation Plan dated September 26, 1995. Exhibit 10.20 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.19* Vencor, Inc. 1997 Incentive Compensation Plan dated December 31, 1996. Exhibit 10.23 to the Company's Form 10-K for the year ended December 31, 1996 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.20* Amendment No. 1 dated May 8, 1997 to the Vencor, Inc. 1997 Incentive Compensation Plan. Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended June 30, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT

10.21* Vencor, Inc. Deferred Compensation Plan dated January 1, 1996. Exhibit 10.24 to the Company's Form 10-K for the year ended December 31, 1996 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.22* Vencor, Inc. 1997 Stock Option Plan for Non-Employee Directors dated December 31, 1996. Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1996 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.23* TheraTx, Incorporated Amended and Restated 1994 Stock Option/Stock Issuance Plan, as amended. Exhibit 10.7 to the Registration Statement on Form S-1 of TheraTx (Reg. No. 33-92402) is hereby incorporated by reference.

10.24* Amendment to the TheraTx, Incorporated Amended and Restated 1994 Stock Option/Stock Issuance Plan. Exhibit 4.7 to the Company's Registration Statement on Form S-8 (Reg. No. 333-25519) is hereby incorporated by reference.

10.25* TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan. Exhibit 99.1 to the Registration Statement on Form S-8 of TheraTx (Reg. No. 333-15171) is hereby incorporated by reference.

10.26* 1989 Amended and Restated Stock Option Plan of Helian Health Group, Inc. ("Helian"). Exhibit 10.47 to the Registration Statement on Form S-8 of Helian (Reg. No. 33-31520), Amendment No. 2 thereto filed November 21, 1989 and Post-Effective Amendment No. 1 and No. 2 thereto filed November 22, 1990 and January 16, 1991, is hereby incorporated by reference.

10.27* Vencor, Inc. Employee Benefit Trust Agreement dated December 27, 1990 by and between the Company and First Kentucky Trust Company. Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Reg. No. 33-39017) is hereby incorporated by reference.

10.28* The Amended Hillhaven Corporation Board of Directors Retirement Plan. Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.29* The Hillhaven Corporation Annual Incentive Plan, amended as of December 6, 1994. Exhibit 10.27 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.30* The Hillhaven Corporation Supplemental Executive Retirement Plan. Exhibit 10.29 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.31* Form of Indemnification Agreement between Vencor, Inc. and certain of its officers and employees. Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.32* Form of Vencor, Inc. Change-in-Control Severance Agreement.

10.33 Form of Indemnification Agreement for directors of TheraTx. Exhibit 10.13 to the Registration Statement on Form S-1 of TheraTx (Reg. No. 33-78786) is hereby incorporated by reference.

10.34 Form of Indemnification Agreement between Transitional Hospitals Corporation and its Directors and Executive Officers. Exhibit C to the Proxy Statement of Transitional, dated April 24, 1987 relating to its annual meeting of its stockholders on June 1, 1987 (Comm. File No. 1-7008) is hereby incorporated by reference.

10.35 Services Agreement between Hillhaven and Tenet, dated as of January 31, 1990. Exhibit 10.33 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.36 Government Programs Agreement between Hillhaven and Tenet, dated January 31, 1990. Exhibit 10.34 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT

10.37 Insurance Agreement between Hillhaven and Tenet, dated as of January 31, 1990. Exhibit 10.35 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.38* Employee and Employee Benefits Agreement between Hillhaven and Tenet, dated as of January 31, 1990. Exhibit 10.36 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.39 Form of Assignment and Assumption of Lease Agreement between Hillhaven and certain subsidiaries, on the one hand, and Tenet and certain subsidiaries on the other hand, together with the related Guaranty by Hillhaven, dated on or prior to January 31, 1990. Exhibit 10.37 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.40 Form of Management Agreement between First Healthcare Corporation and certain Tenet subsidiaries, dated on or prior to January 31, 1990. Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.41 Reorganization and Distribution Agreement between Hillhaven and Tenet, dated as of January 8, 1990, as amended on January 30, 1990. Exhibit 10.39 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.42 Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of January 31, 1990. Exhibit 10.40 to the Company's Form 10-K for

the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.43 First Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of October 30, 1990. Exhibit 10.41 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.44 First Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of May 30, 1991. Exhibit 10.42 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.45 Second Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of October 2, 1991. Exhibit 10.43 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.46 Third Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of April 1, 1992. Exhibit 10.44 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.47 Fourth Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of November 12, 1992. Exhibit 10.45 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.48 Fifth Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of February 19, 1993. Exhibit 10.46 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.49 Sixth Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of May 28, 1993. Exhibit 10.47 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.50 Seventh Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of May 28, 1993. Exhibit 10.48 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.51 Eighth Amendment to Guarantee Reimbursement Agreement between Hillhaven and Tenet, dated as of September 2, 1993. Exhibit 10.49 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT

10.52 Facility Agreement among First Healthcare Corporation and Certain Limited Partnerships, dated as of April 23, 1992 relating to the sale of 32 nursing centers. Exhibit 10.50 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.53 First Amendment to Facility Agreement among First Healthcare Corporation and Certain Limited Partnerships, dated as of July 31, 1992 relating to the sale of 32 nursing centers. Exhibit 10.51 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.54 Forbearance Agreement among First Healthcare Corporation, Medisave Pharmacies, Inc. and Certain Limited Partnerships, dated as of August 25, 1995. Exhibit 10.52 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.55 Letter of Intent dated June 22, 1993 between Hillhaven and Tenet. Exhibit 10.53 to the Company's Form 10-K for the year ended December

31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.56 Trust Agreement between The Hillhaven Corporation and Wachovia Bank of North Carolina, N.A., as Trustee, dated as of January 16, 1995. Exhibit 10.55 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.57 Strategic Alliance Agreement dated as of June 10, 1997 by and between the Company, Continental Casualty Company and Valley Forge Life Insurance Company. Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended June 30, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.58 Amended and Restated Agreement and Plan of Share Exchange and Agreements to Assign Partnership Interests dated as of February 27, 1995 by and among The Hillhaven Corporation, Nationwide Care, Inc., Phillippe Enterprises, Inc., Meadowvale Skilled Care Center, Inc. and Specified Partners of Camelot Care Centers, Evergreen Woods, Ltd. and Shangri-La Partnership. Exhibit 10.56 to the Company's Form 10-K for the year ended December 31, 1995 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.59 Amended and Restated Agreement and Plan of Merger. Appendix A to Amendment No. 2 to the Company's Registration Statement on Form S-4 (Reg. No. 33-59345) is hereby incorporated by reference.

10.60 Agreement and Plan of Merger dated as of February 9, 1997 among TheraTx, the Company and Peach Aquisition Corp. ("Peach"). Exhibit (c)(1) to the Statement on Schedule 14D-1 of the Company and Peach, dated February 14, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.61 Amendment No. 1 to Agreement and Plan of Merger dated as of February 28, 1997 among TheraTx, the Company and Peach. Exhibit (c)(3) of Amendment No. 2 to the Statement on Schedule 14D-1 of the Company and Peach, dated March 3, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.62 Agreement and Plan of Merger dated June 18, 1997 by and among the Company, LV Acqusition Corp. and Transitional Hospitals Corporation. Exhibit 2.1 to the Company's Current Report on Form 8-K dated July 3, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.63 Agreement and Plan of Merger, dated May 2, 1997, among Select Medical Corporation, SM Acquisition Co. and Transitional Hospitals Corporation. Exhibit 99.1 to the Current Report on Form 8-K of Transitional dated May 2, 1997 (Comm. File No. 1-7008) is hereby incorporated by reference.

10.64 Asset Purchase Agreement between Transitional Hospitals Corporation and Behavioral Healthcare Corporation, dated October 22, 1996. Exhibit 99.1 to the Current Report on Form 8-K of Transitional dated October 22, 1996 (Comm. File No. 1-7008) is hereby incorporated by reference.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT

10.65 Agreement and Plan of Merger between Transitional Hospitals Corporation and Behavioral Healthcare Corporation, dated October 22, 1996. Exhibit 99.2 to the Current Report on Form 8-K of Transitional dated October 22, 1996 (Comm. File No. 1-7008) is hereby incorporated by reference.

10.66 First Amendment to Asset Purchase Agreement between Transitional Hospitals Corporation and Behavioral Healthcare Corporation, dated November 30, 1996. Exhibit 99.1 to the Current Report on Form 8-K of Transitional dated December 16, 1996 (Comm. File No. 1-7008) is hereby incorporated by reference.

10.67 Amendment to Agreement and Plan of Merger between Transitional

Hospitals Corporation and Behavioral Healthcare Corporation, dated November 30, 1996. Exhibit 99.2 to the Current Report on Form 8-K of Transitional dated December 16, 1996 (Comm. File No. 1-7008) is hereby incorporated by reference.

10.68 Other Debt Instruments--Copies of debt instruments for which the related debt is less than 10% of total assets will be furnished to the Commission upon request.

10.69 Parent Guaranty dated as of August 15, 1996 among Atria Communities, Inc., as Borrower, Vencor, Inc., as Parent Guarantor, First Healthcare Corporation, Northwest Health Care, Inc., Medisave Pharmacies, Inc., Hillhaven of Central Florida, Inc., and Nationwide Care, Inc., as Supporting Guarantors, and PNC Bank, National Association, as Administrative Agent. Exhibit 10.59 to the Company's Form 10-K for the year ended December 31, 1996 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.70 Amendment No. 1 to Parent Guaranty dated as of March 27, 1997 among Atria Communities, Inc., as Borrower, Vencor, Inc., as Parent Guarantor, First Healthcare Corporation, Northwest Health Care, Inc., Medisave Pharmacies, Inc., Nationwide Care, Inc., TheraTx, Incorporated, Vencor Hospitals Illinois, Inc., Vencor Hospitals South, Inc., Vencor Hospitals East, Inc., Vencor Hospitals California, Inc., Vencor Hospitals Texas, Ltd., Ventech Systems, Inc., Pasatiempo Development Corp., VCI Specialty Services, Inc., and Vencor Properties, Inc., as Supporting Guarantors, and PNC Bank, National Association, as Administrative Agent. Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended March 31, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

10.71 Amendment No. 2 to Parent Guaranty dated as of May 27, 1997 by Atria Communities, Inc., as Borrower, Vencor, Inc., as Parent Guarantor, First Healthcare Corporation, Northwest Health Care, Inc., Medisave Pharmacies, Inc., Nationwide Care, Inc., TheraTx, Incorporated, Vencor Hospitals Illinois, Inc., Vencor Hospitals South, Inc., Vencor Hospitals East, Inc., Vencor Hospitals California, Inc., Vencor Hospitals Texas, Ltd., Ventech Systems, Inc., Pasatiempo Development Corp., VCI Specialty Services, Inc., and Vencor Properties, Inc., as Supporting Guarantors, and PNC Bank, National Association, as Administration Agent. Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 1997 (Comm. File No. 1-10989) is hereby incorporated by reference.

21 Subsidiaries of the Company.

23 Consent of Ernst & Young LLP.

27 Financial Data Schedule (included only in filings under the Electronic Data Gathering, Analysis, and Retrieval System).

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* Compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b)Reports on Form 8-K.

On October 21, 1997, the Company filed a Current Report on Form 8-K to set forth certain cautionary statements for purposes of obtaining the safe harbors under the 1995 Private Securities Litigation Reform Act. On October 22, 1997, the Company filed a Current Report on Form 8-K to disclose third quarter earnings and to

disclose a projected downward revision to its earnings estimates. On October 23, 1997, the Company filed a Current Report on Form 8-K to announce that its Board of Directors had approved the repurchase of up to 3,000,000 shares of the Company's Common Stock.

(c)Exhibits.

The response to this portion of Item 14 is submitted as a separate section of this Report.

(d)Financial Statement Schedules.

The response to this portion of Item 14 is included in appendix page F-25 of this Report.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 11, 1998 VENCOR, INC.

/s/ W. Bruce Lunsford
By_____
W. BRUCE LUNSFORD CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURES	TITLE	DATE
/s/ Michael R. Barr MICHAEL R. BARR	Executive Vice President, Chief Operating Officer and Director	March 11, 1998
/s/ Walter F. Beran WALTER F. BERAN	Director	March 11, 1998
/s/ Ulysses L. Bridgeman, Jr. ULYSSES L. BRIDGEMAN, JR.	Director	March 11, 1998
/s/ Elaine L. Chao ELAINE L. CHAO	Director	March 11, 1998
/s/ Donna R. Ecton DONNA R. ECTON	Director	March 11, 1998
/s/ Greg D. Hudson GREG D. HUDSON	Director	March 11, 1998
/s/ Richard A. Lechleiter RICHARD A. LECHLEITER	Vice President, Finance and Corporate Controller (Principal Accounting Officer)	March 11, 1998
/s/ William H. Lomicka WILLIAM H. LOMICKA	Director	March 11, 1998
/s/ W. Bruce Lunsford	Chairman of the	March 11, 1998

W. BRUCE LUNSFORD	Board, President, Chief Executive Officer (Principal Executive Officer) and Director	
/s/ W. Earl Reed, III W. EARL REED, III	Executive Vice President, Chief Financial Officer and Director	March 11, 1998
/s/ R. Gene Smith R. GENE SMITH	Vice Chairman of the Board and Director	March 11, 1998

VENCOR, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

(a) All other schedules have been omitted because the required information is not present or not present in material amounts.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
Vencor, Inc.

We have audited the accompanying consolidated balance sheet of Vencor, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed on page F-1. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 consolidated financial position of Vencor, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

LOGO

Louisville, Kentucky
January 26, 1998

VENCOR, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1997	1996	1995
Revenues	$3,116,004	$2,577,783	$2,323,956
Salaries, wages and benefits	1,788,053	1,490,938	1,360,018
Supplies	303,140	261,621	233,066
Rent	89,474	77,795	79,476
Other operating expenses	490,327	405,797	372,657
Depreciation and amortization	123,865	99,533	89,478
Interest expense	102,736	45,922	60,918
Investment income	(6,057)	(12,203)	(13,444)
Non-recurring transactions	-	125,200	109,423
	2,891,538	2,494,603	2,291,592
Income before income taxes	224,466	83,180	32,364
Provision for income taxes	89,338	35,175	24,001
Income from operations	135,128	48,005	8,363
Extraordinary loss on extinguishment of debt, net of income tax benefit of $2,634 in 1997 and $14,839 in 1995	(4,195)	-	(23,252)
Net income (loss)	130,933	48,005	(14,889)
Preferred stock dividend requirements and other items	-	-	(5,280)
Gain on redemption of preferred stock	-	-	10,176
Income (loss) available to common stockholders	$ 130,933	$ 48,005	$ (9,993)
Earnings (loss) per common share:			
Basic:			

Income from operations	$ 1.96	$ 0.69	$ 0.22
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.38)
Net income (loss)	$ 1.90	$ 0.69	$ (0.16)
Diluted:			
Income from operations	$ 1.92	$ 0.68	$ 0.29
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.32)
Net income (loss)	$ 1.86	$ 0.68	$ (0.03)
Shares used in computing earnings (loss) per common share:			
Basic	68,938	69,704	61,196
Diluted	70,359	70,702	71,967

See accompanying notes.

VENCOR, INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1997 AND 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82,473	$ 112,466
Accounts and notes receivable less allowance for loss of $63,551--1997 and $23,915--1996	619,068	420,758
Inventories	27,605	24,939
Income taxes	73,413	67,808
Other	55,589	35,162
	858,148	661,133
Property and equipment, at cost:		
Land	144,074	113,749
Buildings	1,084,770	975,399
Equipment	592,335	435,787
Construction in progress (estimated cost to complete and equip after December 31, 1997--$119,000)	174,851	84,835
	1,996,030	1,609,770
Accumulated depreciation	(488,212)	(416,608)
	1,507,818	1,193,162
Goodwill less accumulated amortization of $18,886--1997 and $7,228--1996	659,311	14,644
Investments in affiliates	178,301	14,837
Other	131,161	85,080
	$3,334,739	$1,968,856
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 106,019	$ 103,518
Salaries, wages and other compensation	163,642	111,366

Other accrued liabilities	115,933	71,434
Long-term debt due within one year	27,468	54,692
	413,062	341,010
Long-term debt	1,919,624	710,507
Deferred credits and other liabilities	94,653	84,053
Minority interests in equity of consolidated entities	2,050	36,195
Contingencies		
Stockholders' equity:		
Preferred stock, $1.00 par value; authorized 1,000 shares; none issued and outstanding	-	-
Common stock, $0.25 par value; authorized 180,000 shares; issued 73,470 shares--1997 and 72,615 shares--1996	18,368	18,154
Capital in excess of par value	766,078	713,527
Retained earnings	281,803	150,870
	1,066,249	882,551
Common treasury stock; 6,159 shares--1997 and 3,730 shares--1996	(160,899)	(85,460)
	905,350	797,091
	$3,334,739	$1,968,856

See accompanying notes.

VENCOR, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SHARES			PAR VALUE					
	PREFERRED STOCK	COMMON STOCK	COMMON TREASURY STOCK	PREFERRED STOCK	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	COMMON TREASURY STOCK	TOTAL
Balances, December 31, 1994	98	59,178	(2,174)	$15	$14,794	$472,661	$136,614	$ (27,630)	$596,454
Net loss							(14,889)		(14,889)
Cash dividends on preferred stock ($67.98 per share) and provision for redemption value							(2,380)		(2,380)
In-kind dividend on preferred stock	3					2,900	(2,900)		-
Issuance of common stock in connection with employee benefit plans		664	(150)		166	24,111		(11,098)	13,179
Issuance of common stock in connection with acquisitions			439			(3,227)		5,498	2,271
Increase in value of common stock purchase warrants of acquired entities						9,810	(9,810)		-
Public offering of common stock		2,200			550	65,944			66,494
Conversion of long-term debt		7,260			1,815	149,645			151,460
Issuance of common stock to grantor trust		3,927	(3,927)		982	87,297		(88,279)	-
Hillhaven Merger:									
Issuance of common stock and related income tax benefits		2,732			683	51,561			52,244
Termination of grantor trust		(3,786)	3,786		(946)	(87,146)		88,279	187
Redemption of preferred									

stock.....	(101)			(15)		(91,253)			(91,268)
Other.....		(17)	1		(4)	2,074	(3,770)	12	(1,688)
Balances, December 31, 1995.....	-	72,158	(2,025)	-	18,040	684,377	102,865	(33,218)	772,064
Net income.....							48,005		48,005
Increase in equity resulting from initial public offering of Atria Communities, Inc. common stock.....						19,828			19,828
Issuance of common stock in connection with employee benefit plans.....		457	246		114	9,223		3,083	12,420
Repurchase of common stock.....			(1,950)					(55,305)	(55,305)
Other.....			(1)			99		(20)	79
Balances, December 31, 1996.....	-	72,615	(3,730)	-	18,154	713,527	150,870	(85,460)	797,091
Net income.....							130,933		130,933
Increase in equity resulting from secondary public offering of Atria Communities, Inc. common stock.....						22,553			22,553
Issuance of common stock in connection with employee benefit plans.....		855	496		214	29,336		6,212	35,762
Repurchase of common stock.....			(2,925)					(81,651)	(81,651)
Other.....						662			662
Balances, December 31, 1997.....	-	73,470	(6,159)	$ -	$18,368	$766,078	$281,803	$(160,899)	$905,350

See accompanying notes.

VENCOR, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS)

	1997	1996	1995
Cash flows from operating activities:			
Net income (loss).....	$ 130,933	$ 48,005	$ (14,889)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization.....	123,865	99,533	89,478
Provision for doubtful accounts.....	31,176	15,001	7,851
Deferred income taxes.....	53,164	(34,814)	(23,570)
Extraordinary loss on extinguishment of debt.....	6,829	-	38,091
Non-recurring transactions.....	-	121,789	102,166
Other.....	(9,737)	(9,316)	6,958
Change in operating assets and liabilities:			
Accounts and notes receivable.....	(87,914)	(64,304)	(107,761)
Inventories and other assets.....	(2,309)	1,284	(3,478)
Accounts payable.....	(14,177)	2,165	22,157
Income taxes payable.....	22,850	(23,892)	5,356
Other accrued liabilities.....	16,251	28,088	(8,722)
Net cash provided by operating activities.....	270,931	183,539	113,637
Cash flows from investing activities:			
Purchase of property and equipment.....	(281,672)	(135,027)	(136,893)
Acquisition of TheraTx, Incorporated.....	(359,439)	-	-

Acquisition of Transitional Hospitals Corporation	(615,620)	-	-
Other acquisitions	(36,630)	(26,236)	(59,343)
Sale of assets	75,988	9,147	899
Collection of notes receivable	8,687	78,151	4,715
Net change in investments	(4,513)	(445)	(12,779)
Other	(20,461)	(6,576)	(8,241)
Net cash used in investing activities	(1,233,660)	(80,986)	(211,642)
Cash flows from financing activities:			
Net change in borrowings under revolving lines of credit	418,700	(1,500)	161,600
Issuance of long-term debt	734,630	10,495	438,052
Repayment of long-term debt	(130,516)	(31,586)	(474,896)
Payment of deferred financing costs	(22,052)	(1,816)	(3,863)
Public offering of common stock	-	52,247	66,494
Other issuances of common stock	13,832	2,242	6,520
Repurchase of common stock	(81,651)	(55,305)	-
Redemption of preferred stock	-	-	(91,268)
Payment of dividends	-	-	(2,779)
Other	(207)	(46)	(5,691)
Net cash provided by (used in) financing activities	932,736	(25,269)	94,169
Change in cash and cash equivalents	(29,993)	77,284	(3,836)
Cash and cash equivalents at beginning of period	112,466	35,182	39,018
Cash and cash equivalents at end of period	$ 82,473	$112,466	$ 35,182
Supplemental information:			
Interest payments	$ 76,864	$ 46,527	$ 69,916
Income tax payments	16,042	55,303	42,218

See accompanying notes.

VENCOR, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ACCOUNTING POLICIES

REPORTING ENTITY

Vencor, Inc. (the "Company") operates an integrated network of healthcare services in 46 states primarily focused on the needs of the elderly. At December 31, 1997, the Company operated 60 long-term acute care hospitals (5,273 licensed beds), 309 nursing centers (40,383 licensed beds) and the Vencare contract services business ("Vencare") which primarily provides respiratory and rehabilitation therapies, medical services and pharmacy management services to approximately 2,900 healthcare facilities.

On September 28, 1995, the Company consummated a merger with The Hillhaven Corporation ("Hillhaven") in a tax-free, stock-for-stock transaction (the "Hillhaven Merger"). See Note 2.

Prior to its merger with the Company, Hillhaven consummated a merger with Nationwide Care, Inc. ("Nationwide") on June 30, 1995 in a tax-free, stock-for-stock transaction (the "Nationwide Merger"). See Note 3.

In the third quarter of 1996, the Company completed an initial public offering related to its independent and assisted living business through the

issuance of 5,750,000 common shares of Atria Communities, Inc. ("Atria") (the "Atria IPO"). See Note 4.

On March 21, 1997, the Company completed the acquisition of TheraTx, Incorporated ("TheraTx"), a provider of rehabilitation and respiratory therapy management services and operator of nursing centers (the "TheraTx Merger"), pursuant to a cash tender offer. See Note 5.

On June 24, 1997, the Company acquired substantially all of the outstanding common stock of Transitional Hospitals Corporation ("Transitional"), an operator of 19 long-term acute care hospitals, pursuant to a cash tender offer. The Company completed the merger of its wholly owned subsidiary with and into Transitional on August 26, 1997 (the "Transitional Merger"). See Note 6.

BASIS OF PRESENTATION

The consolidated financial statements include all subsidiaries. Significant intercompany transactions have been eliminated. Investments in affiliates in which the Company has a 50% or less interest are accounted for by the equity method.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include amounts based upon the estimates and judgments of management. Actual amounts may differ from these estimates.

The Hillhaven Merger and the Nationwide Merger have been accounted for by the pooling-of-interests method. Accordingly, the consolidated financial statements included herein give retroactive effect to these transactions and include the combined operations of the Company, Hillhaven and Nationwide for all periods presented.

The TheraTx Merger and Transitional Merger have been accounted for by the purchase method, which requires that the accounts and operations of acquired entities be included with those of the Company since the acquisition of a controlling interest. Accordingly, the accompanying consolidated financial statements include the operations of TheraTx and Transitional since March 21, 1997 and June 24, 1997, respectively. The Company expects to finalize the purchase price allocations related to these transactions in 1998.

For accounting purposes, the accounts of Atria continued to be consolidated with those of the Company and minority interests in the earnings and equity of Atria were recorded from the consummation date of the Atria IPO through June 30, 1997. In July 1997, Atria completed a secondary equity offering which reduced the Company's ownership percentage to less than 50%. Accordingly, the Company's investment in Atria beginning July 1, 1997 has been accounted for under the equity method.

NOTE 1--ACCOUNTING POLICIES (CONTINUED)

REVENUES

Revenues are recorded based upon estimated amounts due from patients and third-party payors for healthcare services provided, including anticipated settlements under reimbursement agreements with Medicare, Medicaid and other third-party payors.

A summary of revenues by payor type follows (dollars in thousands):

	1997	1996	1995
Medicare	$1,068,624	$ 822,589	$ 691,297
Medicaid	841,598	821,828	776,278
Private and other	1,271,693	972,906	865,820
	3,181,915	2,617,323	2,333,395
Elimination	(65,911)	(39,540)	(9,439)
	$3,116,004	$2,577,783	$2,323,956

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. Carrying values of cash and cash equivalents approximate fair value due to the short-term nature of these instruments.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from the Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies and individual patients. Amounts recorded include estimated provisions for loss related to uncollectible accounts and disputed items that have continuing significance, such as third-party reimbursements that continue to be claimed in current cost reports.

INVENTORIES

Inventories consist primarily of medical supplies and are stated at the lower of cost (first-in, first-out) or market.

PROPERTY AND EQUIPMENT

Depreciation expense, computed by the straight-line method, was $105.3 million in 1997, $91.6 million in 1996 and $79.7 million in 1995. Depreciation rates for buildings range generally from 20 to 45 years. Estimated useful lives of equipment vary from 5 to 15 years.

GOODWILL

Costs in excess of the fair value of identifiable net assets of acquired entities are amortized using the straight-line method principally over 40 years. Amortization expense for 1997, 1996 and 1995 totaled $11.4 million, $2.7 million and $2.0 million, respectively.

The Company regularly reviews the carrying value of certain long-lived assets and the related identifiable intangible assets with respect to any events or circumstances that indicate impairment or that the amortization period may require adjustment. If such circumstances suggest the recorded amounts cannot be recovered, calculated based on estimated cash flows (undiscounted) over the remaining amortization period, the carrying value of such assets are reduced accordingly. At December 31, 1997, the Company does not believe that the carrying value or the amortization period of its long-lived assets and related identifiable intangibles requires such adjustments.

NOTE 1--ACCOUNTING POLICIES (CONTINUED)

PREOPENING COSTS

Costs incurred prior to the opening of new facilities are deferred and amortized on a straight-line basis over a three year period. At December 31, 1997 and 1996, the Company's unamortized preopening costs (included in other assets) were $15.0 million and $1.5 million, respectively.

PROFESSIONAL LIABILITY RISKS

Provisions for loss for professional liability risks are based upon actuarially determined estimates. To the extent that subsequent claims information varies from management's estimates, earnings are charged or credited.

DERIVATIVE INSTRUMENTS

The Company is a party to interest rate swap agreements that eliminate the impact of changes in interest rates on certain outstanding floating rate debt. Each interest rate swap agreement is associated with all or a portion of the principal balance of a specific debt obligation. These agreements involve the exchange of amounts based on variable rates for amounts based on fixed interest rates over the life of the agreement, without an exchange of the notational amount upon which the payments are based. The differential to be paid or received as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt, and the related amount payable to or receivable from counterparties is included in accrued interest. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest rate swap agreements are deferred (included in other assets) and amortized as an adjustment to interest expense over the remaining term of the original contract life of the terminated swap agreement.

EARNINGS PER COMMON SHARE

In 1997, the Financial Accounting Standards Board (the "FASB") issued Statement No. 128, "Earnings Per Share" ("SFAS 128"), replacing the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is similar to the previously reported fully diluted earnings per share. Earnings per share for all periods presented have been restated to conform to the requirements of SFAS 128. The impact of the restatement was not significant.

The computation of diluted earnings per common share give retroactive effect to the Hillhaven Merger and the Nationwide Merger and is based upon the weighted average number of common shares outstanding and the dilutive effect of common stock equivalents consisting primarily of stock options. In addition, the 1995 computation also includes the dilutive effect of convertible debt securities.

During 1995, all convertible debt securities were redeemed in exchange for cash or converted into the Company's common stock. Accordingly, the computation of diluted earnings per common share assumes that the equivalent number of common shares underlying such debt securities were outstanding during the entire year even though the result thereof is antidilutive.

In connection with the Hillhaven Merger, the Company realized a gain in 1995 of approximately $10.2 million upon the cash redemption of Hillhaven preferred stock. Although the gain had no effect on net income, diluted earnings per common and common equivalent share were increased by $0.14.

NOTE 1--ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which will become effective on December 31, 1998 and requires interim disclosures beginning in 1999. SFAS 131 requires public companies to report certain information about operating segments, products and services, the geographic areas in which they operate, and major customers. The operating segments are to be based on the structure of the enterprise's internal organization whose operating results are regularly reviewed by senior management. Management has not yet determined the effect, if any, of SFAS 131 on the consolidated financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the 1997 presentation.

NOTE 2--HILLHAVEN MERGER

On September 27, 1995, the stockholders of both the Company and Hillhaven approved the Hillhaven Merger, effective September 28, 1995. In connection with the Hillhaven Merger, the Company issued approximately 31,651,000 shares of common stock in exchange for all of the outstanding common stock of Hillhaven (an exchange ratio of 0.935 of a share of Company common stock for each share of Hillhaven common stock).

The Hillhaven Merger has been accounted for as a pooling of interests, and accordingly, the consolidated financial statements give retroactive effect to the Hillhaven Merger and include the combined operations of the Company and Hillhaven for all periods presented. The following is a summary of the 1995 results of operations of the separate entities prior to the Hillhaven Merger (dollars in thousands):

	VENCOR	HILLHAVEN	NON-RECURRING TRANSACTIONS	ELIMINATION	CONSOLIDATED
Nine months ended September 30, 1995 (unaudited):					
Revenues	$411,233	$1,322,873	$(24,500)	$(3,775)	$1,705,831
Income (loss) from operations	31,566	41,367	(93,561)	-	(20,628)
Net income (loss)	30,711	20,235	(93,561)	-	(42,615)

NOTE 3--NATIONWIDE MERGER

Prior to its merger with the Company, Hillhaven completed the Nationwide Merger on June 30, 1995. In connection therewith, 4,675,000 shares of common stock (effected for the Hillhaven Merger exchange ratio) were issued in exchange for all of the outstanding shares of Nationwide.

The Nationwide Merger has been accounted for as a pooling of interests, and accordingly, the consolidated financial statements give retroactive effect to the Nationwide Merger and include the combined operations of Hillhaven and Nationwide for all periods presented. The following is a summary of the 1995 results of operations of the separate entities prior to the Nationwide Merger (dollars in thousands):

	HILLHAVEN	NATIONWIDE	NON-RECURRING TRANSACTIONS	CONSOLIDATED
Six months ended June 30, 1995 (unaudited):				
Revenues	$803,793	$66,800	$ -	$870,593
Income from operations	23,837	2,147	(3,686)	22,298
Net income (loss)	23,459	(266)	(3,686)	19,507

NOTE 4--STOCK OFFERINGS OF ATRIA

In the third quarter of 1996, the Company completed the Atria IPO, the proceeds from which aggregated approximately $52.2 million. In connection with the Atria IPO, the Company entered into various agreements with Atria relating to risk-sharing for prior year income tax issues, registration rights, administrative services and liabilities and indemnifications. In addition, the Company guaranteed up to $75 million of Atria's $200 million bank credit facility (the "Atria Bank Facility") at December 31, 1997 and lesser amounts each year thereafter through 2000. At December 31, 1997, there were no outstanding guaranteed borrowings under the Atria Bank Facility.

In July 1997, Atria completed a secondary equity offering which reduced the Company's ownership percentage to less than 50%. Accordingly, the Company's investment in Atria beginning July 1, 1997 has been accounted for under the equity method. At December 31, 1997, the Company owned 10,000,000 shares, or approximately 43%, of Atria common stock.

Gains on issuances of Atria common stock have been recorded as adjustments to common stockholders' equity and have not been credited to earnings.

NOTE 5--THERATX MERGER

On March 21, 1997, the TheraTx Merger was consummated following a cash tender offer in which the Company paid $17.10 for each outstanding share of TheraTx common stock. A summary of the TheraTx Merger follows (dollars in thousands):

Fair value of assets acquired	$ 633,793
Fair value of liabilities assumed	(259,439)
Net assets acquired	374,354
Cash received from acquired entity	(14,915)
Net cash paid	$ 359,439

The purchase price paid in excess of the fair value of identifiable net assets acquired aggregated $307.6 million. In September and October 1997, the Company completed the sales of certain non-strategic assets acquired in connection with the TheraTx Merger. Proceeds from the transactions aggregated $54.6 million.

NOTE 6--TRANSITIONAL MERGER

On June 24, 1997, the Company acquired approximately 95% of the outstanding shares of common stock of Transitional through a cash tender offer in which the Company paid $16.00 per common share. The Company completed the merger of its wholly owned subsidiary with and into Transitional on August 26, 1997. A summary of the Transitional Merger follows (dollars in thousands):

Fair value of assets acquired	$713,336
Fair value of liabilities assumed	(44,842)
Net assets acquired	668,494
Cash received from acquired entity	(52,874)
Net cash paid	$615,620

The purchase price paid in excess of the fair value of identifiable net assets acquired aggregated $349.1 million.

NOTE 7--BUSINESS COMBINATIONS OTHER THAN HILLHAVEN, NATIONWIDE, THERATX AND TRANSITIONAL

The Company has acquired a number of healthcare facilities (including certain previously leased facilities) and other related businesses, substantially all of which have been accounted for by the purchase method. Accordingly, the aggregate purchase price of these transactions has been allocated to tangible and identifiable intangible assets acquired and liabilities assumed based upon their respective fair values. The consolidated financial statements include the operations of acquired entities since the respective acquisition dates. The pro forma effect of these acquisitions on the Company's results of operations prior to consummation was not significant.

The following is a summary of acquisitions consummated during the last three years under the purchase method of accounting (dollars in thousands):

	1997	1996	1995
Fair value of assets acquired	$ 71,601	$26,621	$ 78,893
Fair value of liabilities assumed	(34,971)	(385)	(16,475)
Net assets acquired	36,630	26,236	62,418
Cash received from acquired entities	-	-	(804)
Issuance of common stock	-	-	(2,271)
Net cash paid for acquisitions	$ 36,630	$26,236	$ 59,343

The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated $5.7 million in 1997, $4.8 million in 1996 and $9.7 million in 1995.

NOTE 8--PRO FORMA INFORMATION (UNAUDITED)

The pro forma effect of the TheraTx Merger and Transitional Merger assuming that the transactions occurred on January 1, 1996 follows (dollars in thousands, except per share amounts):

	YEAR ENDED DECEMBER 31,	
	1997	1996
Revenues	$3,364,274	$3,475,217
Income from operations	98,446	14,001
Net income	94,251	12,867
Earnings per common share:		
Basic:		
Income from operations	$ 1.43	$ 0.20
Net income	1.37	0.18
Diluted:		
Income from operations	$ 1.40	$ 0.20
Net income	1.34	0.18

For both periods presented, pro forma financial data have been derived by combining the financial results of the Company and TheraTx (based upon year end reporting periods ending on December 31) and Transitional (based upon year end reporting periods ending on November 30).

Pro forma income from operations for 1997 includes costs incurred by both TheraTx and Transitional in connection with the acquisitions which reduced net income by $29.7 million. Pro forma income from operations for 1996 includes a gain on the sale of Transitional's United Kingdom psychiatric hospitals aggregating $33 million and losses of $53 million related primarily to the sale of Transitional's United States psychiatric hospitals.

NOTE 9--NON-RECURRING TRANSACTIONS

1996

In the fourth quarter of 1996, the Company recorded pretax charges aggregating $125.2 million primarily to complete the integration of Hillhaven. In November 1996, the Company executed a definitive agreement to sell 34 underperforming or non-strategic nursing centers in early 1997. A charge of $65.3 million was recorded in connection with the disposition. In addition, the Company's previously independent institutional pharmacy business, acquired as part of the Hillhaven Merger, was integrated into Vencare, resulting in a charge of $39.6 million related primarily to costs associated with employee severance and benefit costs (approximately 500 employees), facility close-down expenses and the writeoff of certain deferred costs for services to be discontinued. A provision for loss totaling $20.3 million related to the planned replacement of one hospital and three nursing centers was also recorded in the fourth quarter.

During 1997, the Company sold 28 of the 34 non-strategic nursing centers planned for disposition. Proceeds from the transaction aggregated $11.2 million. In addition, one facility was sold and one was closed in January 1998, and two nursing centers are expected to be sold pending regulatory approvals. In February 1998, the Company was unable to receive the necessary

licensure approvals to sell two non-strategic nursing centers for which provisions for loss had been recorded in 1996. The Company intends to continue to operate these facilities. Accrued provisions for loss at December 31, 1997 were not significant. The reorganization of the institutional pharmacy business was substantially completed in 1997, which included the elimination of duplicative administrative functions and establishment of the pharmacy operations as an integrated part of the Company's hospital operations. The Company expects that construction activities related to the replacement of one hospital and three nursing centers will be completed in 1998 and 1999. Accrued provision for loss related to the facilities to be sold or replaced aggregated $22.2 million at December 31, 1997.

1995

In the third quarter of 1995, the Company recorded pretax charges aggregating $128.4 million primarily in connection with the consummation of the Hillhaven Merger. The charges included (i) $23.2 million of investment advisory and professional fees, (ii) $53.8 million of employee benefit plan and severance costs (approximately 500 employees), (iii) $26.9 million of losses associated with the planned disposition of certain nursing center properties and (iv) $24.5 million of charges to reflect the Company's change in estimates of accrued revenues recorded in connection with certain prior-year nursing center third-party reimbursement issues (recorded as a reduction of revenues). During 1996 and 1997, these activities were substantially completed.

Pretax charges aggregating $5.5 million were recorded in the second quarter primarily in connection with the Nationwide Merger.

NOTE 10--INVESTMENTS IN AFFILIATES

Affiliated companies accounted for on the equity method include Atria (since July 1, 1997), Behavioral Healthcare Corporation ("BHC"), a non-public operator of psychiatric and behavioral centers, and various other healthcare related companies. The Company obtained a 44% voting equity interest in BHC (61% ownership interest) as part of the Transitional Merger. Summarized financial data reported by these affiliates and a summary of the amounts recorded in the Company's consolidated financial statements as of and for the year ended December 31, 1997 follow (for the six month period ended December 31, 1997 for Atria and BHC) (dollars in thousands):

	ATRIA	BHC	OTHER	TOTAL
Financial position:				
Current assets	$194,761	$74,526	$44,107	$313,394
Current liabilities	14,100	32,876	18,359	65,335
Working capital	180,661	41,650	25,748	248,059
Noncurrent assets	280,702	196,394	22,916	500,012
Noncurrent liabilities	268,524	112,190	16,908	397,622
Stockholders' equity	192,839	125,854	31,756	350,449
Results of operations:				
Revenues	37,679	158,597	97,604	293,880
Net income	4,328	788	9,913	15,029
Amounts recorded by the Company:				
Investments in affiliates	85,886	73,046	19,369	178,301
Equity in earnings	1,870	407	5,904	8,181

The fair value of the Company's investment in Atria approximated $171.3 million at December 31, 1997.

NOTE 11--INCOME TAXES

Provision for income taxes consists of the following (dollars in thousands):

	1997	1996	1995
Current:			
Federal	$31,006	$59,470	$40,008
State	5,168	10,519	7,563
	36,174	69,989	47,571
Deferred	53,164	(34,814)	(23,570)
	$89,338	$35,175	$24,001

Reconciliation of federal statutory rate to effective income tax rate follows:

	1997	1996	1995
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.6	3.6	4.3
Merger and restructuring costs	-	3.5	34.6
Goodwill amortization	1.6	-	-
Other items, net	(0.4)	0.2	0.3
Effective income tax rate	39.8%	42.3%	74.2%

NOTE 11--INCOME TAXES (CONTINUED)

A summary of deferred income taxes by source included in the consolidated balance sheet at December 31 follows (dollars in thousands):

	1997		1996	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Depreciation	$ -	$65,018	$ -	$47,256
Insurance	17,948	-	12,058	-
Doubtful accounts	37,689	-	37,989	-
Property	23,428	-	34,767	-
Compensation	16,154	-	17,030	-

Subsidiary net operating losses (expiring in 2017)	15,864	-	-	-
Other	26,236	27,170	33,120	19,990
	$137,319	$92,188	$134,964	$67,246

Management believes that the deferred tax assets in the table above will ultimately be realized. Management's conclusion is based primarily on the existence of sufficient taxable income within the allowable carryback periods to realize the tax benefits of deductible temporary differences recorded at December 31, 1997.

Deferred income taxes totaling $73.4 million and $62.4 million at December 31, 1997 and 1996, respectively, are included in other current assets. Noncurrent deferred income taxes, included in other long-term liabilities, totaled $28.3 million at December 31, 1997. Noncurrent deferred income taxes at December 31, 1996 totaling $5.3 million are included in other long-term assets.

NOTE 12--PROFESSIONAL LIABILITY RISKS

The Company insures a substantial portion of its professional liability risks through a wholly owned insurance subsidiary. Provisions for such risks underwritten by the subsidiary were $10.7 million for 1997, and $10.4 million for 1996, and $11.1 million for 1995.

Amounts funded for the payment of claims and expenses incident thereto, included principally in cash and cash equivalents and other assets, aggregated $26.4 million and $20.7 million at December 31, 1997 and 1996, respectively. Allowances for professional liability risks, included principally in deferred credits and other liabilities, were $26.3 million and $21.6 million at December 31, 1997 and 1996, respectively.

NOTE 13--LONG-TERM DEBT

Capitalization

A summary of long-term debt at December 31 follows (dollars in thousands):

	1997	1996
Senior collateralized debt, 5% to 10% (rates generally floating) payable in periodic installments through 2019	$ 55,651	$119,634
Non-interest bearing residential mortgage bonds	-	33,917
Bank revolving credit agreement due 2002 (floating rates averaging 6.6%)	1,129,300	333,100
Bank term loan (floating rates averaging 6.3%)	-	271,000
8 5/8% Senior Subordinated Notes due 2007	750,000	-
Other	12,141	7,548
Total debt, average life of six years (rates averaging 7.3%)	1,947,092	765,199
Amounts due within one year	(27,468)	(54,692)
Long-term debt	$1,919,624	$710,507

NOTE 13--LONG-TERM DEBT (CONTINUED)

In connection with the TheraTx Merger, the Company entered into a new five-year bank credit facility (the "Bank Facility") aggregating $1.75 billion on March 31, 1997, replacing the Company's $1.0 billion bank credit facility. On June 24, 1997, the Bank Facility was amended to increase the amount of the credit to $2.0 billion. Interest is payable, depending on certain leverage ratios and the period of borrowing, at rates up to either (i) the prime rate plus 1/2% or the daily federal funds rate plus 1%, (ii) LIBOR plus 1 1/8% or (iii) the bank certificate of deposit rate plus 1 1/4%. The Bank Facility is collateralized by the capital stock of certain subsidiaries and intercompany borrowings and contains covenants which require, among other things, maintenance of certain financial ratios and limit the amount of additional debt and repurchases of common stock.

In July 1997, the Company completed the private placement of $750 million aggregate principal amount of 8 5/8% Senior Subordinated Notes due 2007 (the "Notes"). The Notes were issued at 99.575% of face value and are not callable by the Company until 2002. The net proceeds of the offering were used to reduce outstanding borrowings under the Bank Facility. The Company exchanged the Notes for publicly registered Notes having identical terms and conditions in November 1997.

REFINANCING ACTIVITIES

In connection with the TheraTx Merger and the Transitional Merger, the Company refinanced a substantial portion of its long-term debt. These transactions resulted in after-tax losses of $4.2 million in 1997. During 1995, the Company recorded $23.3 million of after-tax losses from refinancing of long-term debt, substantially all of which was incurred in connection with the Hillhaven Merger. Amounts refinanced in 1995 included $171 million of 10 1/8% Senior Subordinated Notes due 2001, $112 million of outstanding borrowings under prior revolving credit agreements, and $173 million of other senior debt.

In the fourth quarter of 1995, the Company called for the redemption of its 6% Convertible Subordinated Notes due 2002 aggregating $115 million (the "6% Notes") and its 7 3/4% Convertible Subordinated Debentures due 2002 aggregating $75 million (the "7 3/4% Debentures") which were convertible into the Company's common stock at the rate of $26.00 and $17.96 per share, respectively. Approximately $80.6 million principal amount of the 6% Notes were converted into approximately 3,098,000 shares of common stock and the remainder were redeemed in exchange for cash equal to 104.2% of face value plus accrued interest. All outstanding 7 3/4% Debentures were converted into approximately 4,161,000 shares of common stock. These transactions had no material effect on earnings per common share.

OTHER INFORMATION

At December 31, 1997, the Company was a party to certain interest rate swap agreements that eliminate the impact of changes in interest rates on $400 million of floating rate debt outstanding. One agreement for $100 million expires in April 1998 and provides for fixed rates at 5.7% plus 3/8% to 1 1/8%. A second agreement provides for fixed rates on $300 million of floating rate debt at 6.4% plus 3/8% to 1 1/8% and expires in $100 million increments in May 1999, November 1999 and May 2000. The fair value of the swap agreements (a payable position of $2.9 million and $139,000 at December 31, 1997 and 1996, respectively) has not been recognized in the consolidated financial statements. The fair value of the swap agreements represents the estimated amount the Company would pay to terminate the agreements based on current interest rates.

Maturities of long-term debt in years 1999 through 2002 are $25.8 million, $25.4 million, $27.6 million and $1.0 billion, respectively.

NOTE 13--LONG-TERM DEBT (CONTINUED)

The estimated fair value of the Company's long-term debt was $1.96 billion and $752 million at December 31, 1997 and 1996, respectively, compared to carrying amounts aggregating $1.95 billion and $765 million. The estimate of fair value includes the effect of the interest rate swap agreements and is based upon the quoted market prices for the same or similar issues of long-term debt, or on rates available to the Company for debt of the same remaining maturities.

NOTE 14--LEASES

The Company leases real estate and equipment under cancelable and non-cancelable arrangements. Future minimum payments and related sublease income under non-cancelable operating leases are as follows (dollars in thousands):

	MINIMUM PAYMENTS	SUBLEASE INCOME
1998	$57,728	$7,119
1999	56,879	6,101
2000	46,376	5,886
2001	34,924	4,513
2002	24,020	2,221
Thereafter	86,048	13,425

Sublease income aggregated $8.0 million, $8.8 million and $13.7 million for 1997, 1996 and 1995, respectively.

NOTE 15--CONTINGENCIES

Management continually evaluates contingencies based upon the best available evidence. In addition, allowances for loss are provided currently for disputed items that have continuing significance, such as certain third-party reimbursements and deductions that continue to be claimed in current cost reports and tax returns.

Management believes that allowances for losses have been provided to the extent necessary and that its assessment of contingencies is reasonable. Management believes that resolution of contingencies will not materially affect the Company's liquidity, financial position or results of operations.

Principal contingencies are described below:

Revenues--Certain third-party payments are subject to examination by agencies administering the programs. The Company is contesting certain issues raised in audits of prior year cost reports.

Professional liability risks--The Company has provided for loss for professional liability risks based upon actuarially determined estimates. Actual settlements may differ from the provisions for loss.

Interest rate swap agreements--The Company is a party to certain agreements which reduce the impact of changes in interest rates on $400 million of its floating rate long-term debt. In the event of nonperformance by other parties to these agreements, the Company may incur a loss to the

extent that market rates exceed contract rates.

Guarantees of indebtedness--Letters of credit and guarantees of indebtedness aggregated $140 million at December 31, 1997, of which $75 million relates to the Atria Bank Facility.

NOTE 15--CONTINGENCIES (CONTINUED)

Income taxes--The Company is contesting adjustments proposed by the Internal Revenue Service for years 1990, 1991 and 1992.

Litigation--Various suits and claims arising in the ordinary course of business are pending against the Company. See Note 23.

NOTE 16--EARNINGS PER COMMON SHARE

A computation of the earnings per common share follows (in thousands, except per share amounts):

	1997	1996	1995
Earnings (loss):			
Income (loss) available to common stockholders--basic computation	$130,933	$48,005	$(9,993)
Interest addback on convertible securities, net of income tax benefit	-	-	7,380
Income (loss) available to common stockholders--diluted computation	$130,933	$48,005	$(2,613)
Shares used in the computation:			
Weighted average shares outstanding--basic computation	68,938	69,704	61,196
Dilutive effect of employee stock options and other dilutive securities	1,421	998	10,771
Adjusted weighted average shares outstanding--diluted computation	70,359	70,702	71,967
Earnings (loss) per common share:			
Basic:			
Income from operations	$ 1.96	$ 0.69	$ 0.22
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.38)
Net income (loss)	$ 1.90	$ 0.69	$ (0.16)
Diluted:			
Income from operations	$ 1.92	$ 0.68	$ 0.29
Extraordinary loss on extinguishment of debt	(0.06)	-	(0.32)
Net income (loss)	$ 1.86	$ 0.68	$ (0.03)

NOTE 17--CAPITAL STOCK

PLAN DESCRIPTIONS

The Company has plans under which options to purchase common stock may be granted to officers, employees and certain non-employee directors. Options have been granted at not less than market price on the date of grant. Exercise provisions vary, but most options are exercisable in whole or in part beginning one to four years after grant and ending ten years after grant. Activity in the plans is summarized below:

	SHARES UNDER OPTION	OPTION PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
Balances, December 31, 1994	2,046,650	$ 0.53 to $24.25	$12.77
Granted	1,537,820	11.50 to 32.50	27.32
Exercised	(593,918)	0.53 to 29.14	11.57
Canceled or expired	(51,151)	5.35 to 28.50	21.02
Balances, December 31, 1995	2,939,401	0.53 to 32.50	20.48
Granted	1,467,451	25.50 to 38.38	26.02
Exercised	(368,758)	0.53 to 28.50	6.10
Canceled or expired	(351,271)	14.17 to 32.63	26.65
Balances, December 31, 1996	3,686,823	0.53 to 38.38	23.54
Granted	1,309,900	25.50 to 43.88	30.47
Assumed in connection with TheraTx Merger	475,643	0.20 to 38.83	27.05
Exercised	(775,431)	0.53 to 35.46	17.90
Canceled or expired	(301,765)	19.92 to 34.25	26.78
Balances, December 31, 1997	4,395,170	$ 0.20 to $43.88	$26.77

A summary of stock options outstanding at December 31, 1997 follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1997	REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1997	WEIGHTED AVERAGE EXERCISE PRICE
$0.20 to $24.86	120,692	1 to 4 years	$ 8.30	120,692	$ 8.30
$1.02 to $38.83	482,941	5 to 7 years	21.72	419,578	21.40
$23.37 to $43.88	3,791,537	8 to 10 years	28.00	991,485	27.00
	4,395,170		$26.77	1,531,755	$23.99

The weighted average remaining contractual life of options outstanding at December 31, 1997 approximated eight years. Shares of common stock available for future grants were 3,980,678, 1,387,396 and 2,740,066 at December 31, 1997, 1996 and 1995, respectively. The number of options exercisable at December 31, 1996 and 1995 were 1,142,688 and 1,021,168, respectively.

In 1995, the Company issued long-term incentive agreements to certain

officers and key employees whereby the Company may annually issue shares of common stock to such individuals in satisfaction of predetermined performance goals. Share awards aggregated 74,330 for 1997, 80,913 for 1996 and 92,500 for 1995.

NOTE 17--CAPITAL STOCK (CONTINUED)

PLAN DESCRIPTIONS (CONTINUED)

In May 1997, stockholders voted to approve a stock option plan for non-employee directors and an employee incentive compensation plan. Shares issuable under the plans aggregated 200,000 and 3,400,000, respectively.

A Shareholder Rights Plan allows common stockholders the right to purchase Series A Preferred Stock in the event of accumulation of or tender offer for 15% (reduced to 9.9% in February 1998) or more of the Company's common stock. The rights will expire in 2003 unless redeemed earlier by the Company.

STATEMENT NO. 123 DATA

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"), requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement No. 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value of such options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 5.50% for 1997, 6.33% for 1996 and 1995; no dividend yield; expected term of seven years and volatility factors of the expected market price of the Company's common stock of .31 for 1997, .24 for 1996 and .25 for 1995.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because the changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the respective vesting period. The weighted average fair values of options granted during 1997, 1996 and 1995 under the Black-Scholes model were $13.75, $10.95 and $11.74, respectively. Pro forma information follows (in thousands except per share amounts):

	1997	1996	1995
Pro forma income (loss) available to common stockholders	$120,941	$42,530	$(10,842)
Pro forma earnings (loss) per common and common equivalent share:			
Basic	$ 1.75	$ 0.61	$ (0.18)
Diluted	1.71	0.61	(0.05)

Because Statement No. 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

NOTE 18--EMPLOYEE BENEFIT PLANS

The Company maintains defined contribution retirement plans covering employees who meet certain minimum eligibility requirements. Benefits are determined as a percentage of a participant's contributions and are generally vested based upon length of service. Retirement plan expense was $13.0 million for 1997, $8.8 million for 1996 and $9.7 million for 1995. Amounts equal to retirement plan expense are funded annually.

NOTE 19--ACCRUED LIABILITIES

A summary of other accrued liabilities at December 31 follows (dollars in thousands):

	1997	1996
Interest	$ 30,662	$ 3,502
Taxes other than income	15,462	20,238
Income taxes payable	7,737	-
Patient accounts	21,370	17,919
Merger related costs	15,338	16,640
Other	25,364	13,135
	$115,933	$71,434

NOTE 20--TRANSACTIONS WITH TENET HEALTHCARE CORPORATION

Hillhaven became an independent public company in January 1990 as a result of a spin-off transaction with Tenet Healthcare Corporation (formerly National Medical Enterprises, Inc.) ("Tenet"). The following is a summary of significant transactions with Tenet:

Debt guarantees--Tenet and the Company are parties to a guarantee agreement under which the Company pays a fee to Tenet in consideration for Tenet's guarantee of certain obligations of the Company. Such fees totaled $2.0 million in 1997, $3.0 million in 1996, and $3.8 million in 1995.

Leases--The Company leases certain nursing centers from a joint venture in which Tenet has a minority interest. Lease payments to the joint venture aggregated $9.4 million, $10.3 million and $9.9 million for 1997, 1996 and 1995, respectively.

Equity ownership--At December 31, 1997, Tenet owned 8,301,067 shares of the Company's common stock. Prior to the Hillhaven Merger, Tenet also owned all of Hillhaven's outstanding Series C and Series D Preferred Stock.

Management agreements--Fees paid by Tenet for management, consulting and advisory services in connection with the operation of seven nursing centers owned or leased by Tenet aggregated $2.6 million in 1997 and $2.7 million in both 1996 and 1995.

NOTE 21--FAIR VALUE DATA

A summary of fair value data at December 31 follows (dollars in thousands):

	1997		1996	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash and cash equivalents.....	$ 82,473	$ 82,473	$112,466	$112,466
Long-term debt, including amounts due within one year.....	1,947,092	1,955,097	765,199	751,843

NOTE 22--STOCK REPURCHASES

In the fourth quarter of 1997, the Company repurchased 2,925,000 shares of common stock at an aggregate cost of $81.7 million. Repurchases of 1,950,000 shares common stock in 1996 totaled $55.3 million. These transactions were financed primarily through borrowings under the Bank Facility.

NOTE 23--LITIGATION

A class action lawsuit entitled A. Carl Helwig v. Vencor, Inc., et al. was filed on December 24, 1997 in the United States District Court for the Western District of Kentucky (Civil Action No. 3-97CV-8354). The class action claims were brought by an alleged stockholder of the Company against the Company and certain executive officers and directors of the Company, namely W. Bruce Lunsford, W. Earl Reed, III, Michael R. Barr, Thomas T. Ladt, Jill L. Force and James H. Gillenwater, Jr. The complaint alleges that the Company and certain executive officers of the Company during a specified time frame violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by, among other things, issuing to the investing public a series of false and misleading statements concerning the Company's current operations and the inherent value of the Company's common stock. The complaint further alleges that as a result of these purported false and misleading statements concerning the Company's revenues and successful acquisitions, the price of the Company's common stock was artificially inflated. In particular, the complaint alleges that the Company issued false and misleading financial statements during the first, second and third calendar quarters of 1997 which misrepresented and understated the impact that changes in Medicare reimbursement policies would have on the Company's core services and profitability. The complaint further alleges that the Company issued a series of materially false statements concerning the purportedly successful integration of its recent acquisitions and prospective earnings per share for 1997 and 1998 which the Company knew lacked any reasonable basis and were not being achieved. The suit seeks damages in an amount to be proven at trial, pre-judgment and post-judgment

interest, reasonable attorneys' fees, expert witness fees and other costs, and any extraordinary equitable and/or injunctive relief permitted by law or equity to assure that the plaintiff has an effective remedy. The Company believes that the allegations in the complaint are without merit and intends to defend vigorously this action.

On June 19, 1997, a class action lawsuit was filed in the United States District Court for the District of Nevada on behalf of a class consisting of all persons who sold shares of Transitional common stock during the period from February 26, 1997 through May 4, 1997, inclusive. The complaint alleges that Transitional purchased shares of its common stock from members of the investing public after it had received a written offer to acquire all of Transitional's common stock and without disclosing that such an offer had been made. The complaint further alleges that defendants disclosed that there were "expressions of interest" in acquiring Transitional when, in fact, at that time, the negotiations had reached an advanced stage with actual firm offers at substantial premiums to the trading price of Transitional's stock having been made which were actively being considered by Transitional's Board of Directors. The complaint asserts claims pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and common law principles of negligent misrepresentation and names as defendants Transitional as well as certain senior executives and directors of Transitional. The plaintiff seeks class certification, unspecified damages, attorneys' fees and costs. The Company has filed a motion to dismiss and is awaiting the court's decision. The Company is vigorously defending this action.

The Company's subsidiary, American X-Rays, Inc. ("AXR"), is the defendant in a qui tam lawsuit which was filed in the United States District Court for the Eastern District of Arkansas and served on the Company on July 7, 1997. The United States Department of Justice intervened in the suit which was brought under the Federal Civil False Claims Act. AXR provided portable X-ray services to nursing facilities (including those operated by the Company) and other healthcare providers. The Company acquired an interest in AXR when Hillhaven was merged into the Company in September 1995 and purchased the remaining interest in AXR in February 1996. The suit alleges that AXR submitted false claims to the Medicare and Medicaid programs. In conjunction with

NOTE 23--LITIGATION (CONTINUED)

the qui tam action, the United States Attorney's Office for the Eastern District of Arkansas also is conducting a criminal investigation into the allegations contained in the qui tam complaint. The suit seeks damages in an amount of not less than $1,000,000, treble damages and civil penalties. The Company is cooperating fully in the investigation.

On June 6, 1997, Transitional announced that it had been advised that it is a target of a Federal grand jury investigation being conducted by the United States Attorney's Office for the District of Massachusetts (the "USAO") arising from activities of Transitional's formerly owned dialysis business. The investigation involves an alleged illegal arrangement in the form of a partnership which existed from June 1987 to June 1992 between Damon Corporation and Transitional. Transitional spun off its dialysis business, now called Vivra Incorporated, on September 1, 1989. In January 1998, the Company was informed that no criminal charges would be filed against the Company. The Company has been informed that the USAO intends to file a civil action against Transitional relating to the partnership's former business. If such a suit is filed, the Company will vigorously defend the action.

Management believes that the ultimate resolution of these claims will not have a material adverse effect on the Company's financial position, results of operations or liquidity. Accordingly, no provisions for loss related to the previously discussed litigation matters have been recorded in the consolidated

financial statements.

NOTE 24--SUBSEQUENT EVENT

In January 1998, the Board of Directors of the Company authorized management to proceed with a plan to separate the Company into two publicly held corporations, one to operate the hospital, nursing center and Vencare businesses ("Operating Company") and the other to own substantially all of the real property of the Company ("Realty Company") and to lease such real property to Operating Company (the "Reorganization Transactions"). Realty Company intends to become a real estate investment trust for Federal income tax purposes beginning January 1, 1999. The Board's action is subject to, among other things, Company stockholder approval, regulatory and other approvals, tax considerations and the consummation of a capitalization plan for each entity. The Company filed a preliminary proxy statement concerning the Reorganization Transactions and the Distribution with the Securities and Exchange Commission on January 30, 1998. Management anticipates that the Reorganization Transactions and Distribution will be completed in the second quarter of 1998.

The Reorganization Transactions will be effected through the issuance to Company common stockholders of all of the outstanding shares of Operating Company (the "Distribution"). Subsequent to the Distribution, Vencor, Inc. will be the name of the legal entity that will comprise Operating Company and VenTrust, Inc. will be the name of the legal entity comprising Realty Company.

For accounting purposes the historical consolidated financial statements of the Company will become the historical consolidated financial statements of Operating Company at the time of the Distribution. Realty Company will not have been operated as a real estate investment trust prior to the Distribution. Accordingly, the consolidated financial statements of Realty Company will consist solely of its operations after the Distribution. The assets and liabilities of both Operating Company and Realty Company will be recorded at their respective historical carrying values at the time of the Distribution.

In connection with the Reorganization Transactions, the Company will be required to refinance, repurchase or assign substantially all of its long-term debt, including the Bank Facility and the Notes. In lieu of repurchasing the Notes, the Company may assign to Operating Company, and Operating Company would assume, the Notes. Management is considering a capitalization plan for both Operating Company and Realty Company to be effected on or before the date of the Distribution in which the Company's long-term debt is expected to be refinanced,

NOTE 24--SUBSEQUENT EVENT (CONTINUED)

repurchased or assumed by either Operating Company or Realty Company at interest rates and terms which may be less favorable than those of the Company's current debt arrangements. There can be no assurance that sufficient financing will be available on terms that are acceptable to either Operating Company or Realty Company, or that either entity will have the financial resources necessary to implement its respective acquisition and development plans following the Distribution.

	1997			
	FIRST	SECOND	THIRD	FOURTH
Revenues	$680,696	$778,295	$844,740	$812,273
Net income:				
Income from operations	33,982	37,010	36,902	27,234
Extraordinary loss on extinguishment of debt	(2,259)	(1,590)	(346)	-
Net income	31,723	35,420	36,556	27,234
Per common share:				
Basic earnings:				
Income from operations	0.49	0.53	0.53	0.40
Extraordinary loss on extinguishment of debt	(0.03)	(0.02)	-	-
Net income	0.46	0.51	0.53	0.40
Diluted earnings:				
Income from operations	0.48	0.52	0.52	0.40
Extraordinary loss on extinguishment of debt	(0.03)	(0.02)	(0.01)	-
Net income	0.45	0.50	0.51	0.40
Market prices (a):				
High	40 3/8	45 1/8	44 3/8	43 5/16
Low	29	36 5/8	37 3/8	23

	1996			
	FIRST	SECOND	THIRD	FOURTH
Revenues	$626,337	$634,554	$650,551	$666,341
Net income (loss) (b)	27,610	30,865	33,558	(44,028)
Per common share:				
Basic earnings (loss)	0.39	0.44	0.48	(0.64)
Diluted earnings (loss)	0.39	0.43	0.48	(0.64)
Market prices (a):				
High	39 7/8	35	34 1/2	33 1/4
Low	31 1/2	28 1/8	25 1/2	27 1/2

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Earnings per share amounts for all periods presented have been restated to comply with the provisions of SFAS 128. See Notes 1 and 16 of the Notes to Consolidated Financial Statements.

(a) The Company's common stock is traded on the New York Stock Exchange (ticker symbol--VC).

(b) Fourth quarter results include $79.9 million ($1.16 per share) of costs in connection with the sale of certain nursing centers, the restructuring of the pharmacy operations and the planned replacement of certain facilities. See Note 9 of the Notes to Consolidated Financial Statements.

VENCOR, INC.
SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS)

ADDITIONS

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	ACQUISITIONS	DEDUCTIONS OR PAYMENTS	BALANCE AT END OF PERIOD
Allowances for loss on accounts and notes receivable:					
Year ended December 31, 1995	$28,265	$ 7,851	$ -	$ (4,026)	$32,090
Year ended December 31, 1996	32,090	15,001	-	(23,176)	23,915
Year ended December 31, 1997	23,915	31,176	26,144	(17,684)	63,551
Allowances for loss on assets held for disposition:					
Year ended December 31, 1995	$ -	$26,900(a)	$ -	$ -	$26,900
Year ended December 31, 1996	26,900	64,000(b)	-	(22,812)	68,088
Year ended December 31, 1997	68,088	-	7,225	(43,891)	31,422

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(a) Reflects provision for loss associated with the planned disposition of certain nursing center properties recorded in connection with the Hillhaven Merger.

(b) Reflects provision for loss associated with the sale of certain nursing centers and the planned replacement of one hospital and three nursing centers.

EXHIBIT 3.2

THIRD AMENDED AND RESTATED BY-LAWS

OF

VENCOR, INC.

ARTICLE I

OFFICES

1.1. REGISTERED OFFICE. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2. OTHER OFFICES. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

1.3. FISCAL YEAR. The Board of Directors of the Corporation shall have the power to fix, and from time to time change, the fiscal year of the Corporation.

ARTICLE II

STOCKHOLDERS

2.1. ANNUAL MEETING. The annual meeting of the stockholders of the Corporation, for the election of directors, the consideration of financial statements and other reports, and the transaction of such other business as may properly be brought before such meeting, shall be held no later than six months following the end of the Corporation's fiscal year. The meeting shall be held at such time and on such date as may be designated by the Board of Directors of the Corporation. In the event the annual meeting is not held or if directors are not elected at the annual meeting, a special meeting may be called and held for that purpose.

2.2. BUSINESS TO BE CONDUCTED. At an annual meeting of stockholders, only such business shall be conducted (including but not limited to, election of directors), and only such proposals shall be acted upon, as shall have been properly brought before the annual meeting of stockholders (a) by, or at the direction of, the Board of Directors or (b) by a stockholder of the Corporation who complies with the procedures set forth in Article II. For business or a proposal (including but not limited to, the nomination of any person for election as a director of the Corporation) to be properly brought before an annual meeting of stockholders by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the scheduled date of the annual meeting, regardless of any postponement, deferral or adjournment of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by the stockholder to be timely must be so delivered or received not later than the close of

business on the 10th day following the earlier of (i) the day on which such notice of the date of the meeting was mailed or (ii) the day on which such public disclosure was made.

A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before an annual meeting of stockholders (i) a description, in 500 words or less, of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any other stockholders known by such stockholder to be supporting such proposal, (iii) the class and number of shares of the Corporation which are beneficially owned by such stockholder on the date of such stockholder's notice and by any other stockholders known by such stockholder to be supporting such proposal on the date of such stockholder's notice, (iv) a description, in 500 words or less, of any interest of the stockholder in such proposal, and (v) a representation that the stockholder is a holder of record of stock of the Corporation and intends to appear in person or by proxy at the meeting to present the proposal specified in the notice. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at a meeting of stockholders except in accordance with the procedures set forth in this Article II.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that the business was not properly brought before the meeting in accordance with the procedures prescribed by this Article II, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing, nothing in this Article II shall be interpreted or construed to require the inclusion of information about any such proposal in any proxy statement distributed by, at the direction of, or on behalf of, the Board of Directors.

2.3. SPECIAL MEETINGS. Special meetings of stockholders, unless otherwise prescribed by statute, may be called at any time only by the Board of Directors or the Chairman of the Board of the Corporation.

2.4. PLACE OF MEETING. All meetings of the stockholders for the election of directors shall be held at such place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Meetings of stockholders for any other purpose may be held at such time and place either within or without the State of Delaware as shall be stated in the notice of such meeting.

2.5. NOTICE OF MEETINGS AND ADJOURNED MEETINGS. Written notice of the annual meeting or a special meeting stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.6. STOCKHOLDERS LIST. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders,

a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

2.7. QUORUM AND ADJOURNMENT. At any meeting of stockholders, the holder of a majority of the issued and outstanding shares of stock entitled to vote present in person or represented by proxy shall constitute a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the chairman of the meeting or a majority of the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be presented or represented.

2.8. VOTING. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the shares of stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the Delaware General Corporation Law or of the Certificate of Incorporation or of these By-Laws a different vote is required, in which case such express provision shall govern and control the decision of such question.

2.9. PROXIES. At each meeting of the stockholders, each stockholder shall, unless otherwise provided by the Certificate of Incorporation, be entitled to one vote in person or by proxy for each share of stock held by him which has voting power upon the matter in question, but no proxy shall be voted after three years from its date, unless the proxy provides for a longer period.

2.10. ACTION OF STOCKHOLDERS WITHOUT A MEETING.

A. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken for or in connection with any corporate action, whether by any provision of the Delaware General Corporation Law or of the Certificate of Incorporation or these By-Laws or otherwise, such corporate action may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of eighty percent of outstanding stock. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

B. In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no

record date has been fixed by the Board of Directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or any officer or agent of the Corporation having custody of the book in which proceedings of stockholders meetings are recorded, to the attention of the Secretary of the Corporation. Delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by applicable law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the date on which the Board of Directors adopts the resolution taking such prior action.

ARTICLE III

BOARD OF DIRECTORS

3.1. MANAGEMENT OF CORPORATION. The business affairs of the Corporation shall be managed by its Board of Directors.

3.2. NUMBER OF DIRECTORS. The number of directors of the Corporation (exclusive of directors to be elected by the holders of one or more series of the Preferred Stock of the Corporation which may be outstanding, voting separately as a series or class) shall be fixed from time to time by action of not less than a majority of the members of the Board of Directors then in office, but in no event shall be less than three nor more than eleven.

3.3. ELECTION OF DIRECTORS. The directors shall be elected at the annual meeting of stockholders, or if not so elected, at a special meeting of stockholders called for that purpose; provided, however, that if the Corporation shall have no stockholders, directors may be appointed by the incorporators. At any meeting of stockholders at which directors are to be elected, only persons nominated as candidates shall be eligible for election, and the candidates receiving the greatest number of votes shall be elected.

3.4. TERM. Each director shall hold office until the next annual meeting of the stockholders and until his successor has been elected or until his earlier resignation, removal from office, or death.

3.5. REMOVAL. Any director or the entire Board of Directors may be removed with or without cause, at any time, by the affirmative vote of the holders of record of a majority of the outstanding shares of stock entitled to vote in the election of directors, at a special meeting of the stockholders called for the purpose.

3.6. VACANCIES. Any vacancy occurring on the Board of Directors for any reason, including, but not limited to, the resignation, removal, or death of a director or an increase in the number of authorized directors, a majority of the directors remaining in office, although less than a quorum, may elect a successor for the unexpired term and until his successor is elected and qualified.

3.7. ANNUAL MEETING. After each annual election of directors, on the same day, the Board of Directors may meet for the purpose of organization, the election of officers and the transaction of such other business at the place where the annual meeting of the stockholders for the election of directors is held. Notice of such meeting need not be given. Such meeting may be held at any other time or place which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors or in a consent and waiver of notice thereof signed by all the directors.

3.8. REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such places either within or without the State of Delaware and at such time as the Board shall by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at such place at the same hour and on the next succeeding business day not a legal holiday. Notice of regular meetings need not be given.

3.9. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, Chief Executive Officer, a majority of the directors or stockholders owning a majority in amount of the entire capital stock of the Corporation issued and outstanding and entitled to vote. Notice of each such meeting shall be given to each director, at least 24 hours before the day on which the meeting is to be held, in accordance with Article IV of these By-Laws. Each such notice shall state the time and place either within or without the State of Delaware of the meeting but need not state the purpose thereof, except as otherwise provided by the Delaware General Corporation Law or by these By-Laws. Notice of any meeting of the Board need not be given to any director who is present at such meeting; and any meeting of the Board shall be a legal meeting without any notice thereof having been given if all of the directors then in office are present at the meeting unless a director attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

3.10. QUORUM. Except as otherwise provided by the Delaware General Corporation Law or by the Certificate of Incorporation, a majority of the total number of directors shall be required to constitute a quorum for the transaction of business at any meeting, and the affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be necessary for the adoption of any resolution or the taking of any other action.

3.11. TELEPHONE COMMUNICATIONS. Members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

3.12. ACTION OF DIRECTORS WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing and such written consent is filed with the minutes of proceedings of the Board or such committee.

3.13. COMPENSATION. By resolution of the Board of Directors, each director may be paid his expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a stated annual stipend as director or a fixed sum for attendance at each meeting of the

Board of Directors. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

3.14. COMMITTEES. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution and not prohibited by the Delaware General Corporation Law, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, and shall have the power and authority to declare a dividend, to authorize the issuance of stock, and to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

3.15. GOVERNING BODIES. Each hospital owned or operated by the Corporation shall have a governing body consisting of three persons (the "Governing Board"). Unless the Board of Directors otherwise directs, the Governing Board for each hospital operated or owned by the Corporation shall be comprised of the Corporation's Vice President, Finance; Vice President, Operations; and the local hospital administrator. To the extent not prohibited by Delaware law or by resolution of the Board of Directors, the Governing Board of each hospital shall have the authority, and shall be responsible for, the day-to-day operations and conduct of the hospital as an institution. Additionally, the Governing Board shall carry out, with respect to the hospital, the functions specified in 42 C.F.R. Part 482, as may be amended from time to time or any successor section thereto, as such section may pertain to the governing bodies of the hospitals.

ARTICLE IV

NOTICES

4.1. NOTICES. Whenever, under the provisions of the Delaware General Corporation Law or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any director or stockholder, such notice shall be in writing, and shall be hand-delivered or sent by mail, addressed to such director or stockholder, at his address as it appears on the records of the Corporation, with postage thereon pre-paid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or, in the case of notice mailed from the United States to an overseas address, ten (10) days after the same is deposited in the United States mail. Notice to directors may also be given orally, in person or by telephone, or by telegram or telex, and such notice shall be deemed to be given upon transmission, in the case of a notice by telegram, or upon receipt of the answer back of the telex machine of the receiving party, in the case of a notice by telex.

4.2. WAIVER OF NOTICE. Whenever any notice is required to be given under the provisions of the Delaware General Corporation Law or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE V

OFFICERS

5.1. OFFICERS. The officers of the Corporation shall be a Chairman of the Board, Vice Chairman, Chief Executive Officer, President, one or more Vice Presidents, a Secretary, a Treasurer, and, if the Board shall so determine, an Assistant Secretary and an Assistant Treasurer. Any two or more offices may be held by the same person.

5.2. ELECTION OF OFFICERS. The officers shall be elected by the Board of Directors and each shall hold office at the pleasure of the Board of Directors until his successor shall have been duly elected and qualified, or until his death, or until he shall resign or until he shall have been removed in the manner hereinafter provided.

5.3. OTHER OFFICERS. In addition to the officers named in Article I, the Corporation may have such other officers and agents as may be deemed necessary by the Board of Directors. Such other officers and agents shall be appointed in such manner, have such duties and hold their offices for such terms, as may be determined by resolution of the Board of Directors.

5.4. RESIGNATION. Any officer may resign at any time by giving written notice of his resignation to the Board of Directors or to the Chairman of the Board of the Corporation. Any such resignation shall take effect at the time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

5.5. REMOVAL. Any officer may be removed, either with or without cause, by action of the Board of Directors.

5.6. VACANCY. A vacancy in any office because of death, resignation, removal or any other cause shall be filled by the Board of Directors.

5.7. CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the stockholders and of the Board of Directors. Unless the Board of Directors designates otherwise, the Chairman shall be the Chief Executive Officer of the Corporation. He may sign certificates for shares of stock of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed. The Chairman of the Board shall, in general, perform all duties incident to the office of chairman of the board and such other duties as may be set forth in the By-Laws or may be prescribed by the Board of Directors from time to time.

5.8. PRESIDENT. In the absence of the Chairman of the Board, the President shall preside at meetings of the stockholders and of the Board of Directors. If the Board of Directors does not appoint a Chairman of the Board, the President shall have the authority given the Chairman of the Board in these By-Laws and shall be considered the Chief Executive Officer of the Corporation unless the Board of Directors otherwise designates. The President may sign, with the Secretary or an Assistant Secretary, certificates for shares of stock of the Corporation;

and shall perform such other duties as from time to time may be assigned to him by the Chairman of the Board or by the Board of Directors.

5.9. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have direct charge of the business of the Corporation, subject to the general control of the Board of Directors, and shall be the chief executive officer of the Corporation unless otherwise determined by the Board of Directors. The Chief Executive Officer shall have direct charge of the daily operational aspects of the Corporation's business, unless otherwise determined by the Board of Directors, and shall have such other duties as may be assigned to him from time to time by the Board of Directors or its Chairman.

5.10. VICE PRESIDENT. In the absence of the President, or in the event of his inability or refusal to act, the Vice President (or, in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their election), shall perform all the duties of the President and such other duties as from time to time may be assigned by the Board of Directors. The Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of stock of the Corporation.

5.11. TREASURER. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies and other depositories as shall be selected in accordance with the provisions of Section 6.3; and, in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Chairman of the Board, the Chief Executive Officer or the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

5.12. SECRETARY. The Secretary shall (a) keep the minutes of the stockholders' meetings and of the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-Laws or as required by law; (c) be custodian of the corporate records and of the seal, if any, of the Corporation; (d) keep a register of the mailing address of each stockholder; (e) sign with the Chairman of the Board or Vice-Chairman or President or Vice President certificates for shares of stock of the Corporation; (f) have general charge of the stock transfer books of the Corporation; and, in general, perform all duties as from time to time may be assigned to him by the Chairman of the Board, the Chief Executive Officer or by the Board of Directors.

5.13. POWERS AND DUTIES. In the absence of any officer of the Corporation, or for any reason the Board of Directors may deem sufficient, the Board of Directors may delegate for the time being, the powers or duties of such officer, or any of them, to any other officer or to any director. The Board of Directors may from time to time delegate to any officer authority to appoint and remove subordinate officers and to prescribe their authority and duties.

5.14. COMPENSATION. The compensation of the officers shall be fixed from time to time by the Board of Directors. Nothing contained herein shall preclude any officer from serving the Corporation in any other capacity, including that of director, or from serving any of its stockholders, subsidiaries or affiliated corporations in any capacity, and receiving proper compensation therefor.

ARTICLE VI

LOANS, CHECKS, DEPOSITS, ETC.

6.1. GENERAL. All checks, drafts, bills of exchange or other orders for the payment of money, issued in the name of the Corporation, shall be signed by such person or persons and in such manner as may from time to time be designated by the Board of Directors, which designation may be general or confined to specific instances.

6.2. LOANS AND EVIDENCES OF INDEBTEDNESS. No loan shall be contracted on behalf of the Corporation, and no evidence of indebtedness shall be issued in its name, unless authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Loans so authorized by the Board of Directors may be effected at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual. All bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation issued for such loans shall be made, executed and delivered as the Board of Directors shall authorize. When so authorized by the Board of Directors, any part of or all the properties, including contract rights, assets, business or good will of the Corporation, whether then owned or thereafter acquired, may be mortgaged, pledged, hypothecated or conveyed or assigned in trust as security for the payment of such bonds, debentures, notes and other obligation or evidences of indebtedness of the Corporation, and of the interest thereon, by instruments executed and delivered in the name of the Corporation.

6.3. BANKING. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may authorize. The Board of Directors may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these By-Laws, as it may deem expedient. For the purpose of deposit and for the purpose of collection for the account of the Corporation, checks, drafts and other orders for the payment of money which are payable to the order of the Corporation shall be endorsed, assigned and delivered by such person or persons and in such manner as may from time to time be authorized by the Board of Directors.

6.4. SECURITIES HELD BY THE CORPORATION. Unless otherwise provided by resolution adopted by the Board of Directors, the Chairman of the Board may from time to time appoint an attorney or attorneys, or an agent or agents, to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities in any other corporation to vote or to consent in respect of such stock or other securities; and the Chairman of the Board may instruct the person or persons so appointed as to the manner of exercising such powers and rights and the Chairman of the Board may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies, powers of attorney or other written instruments as he may deem necessary in order that the Corporation may exercise such powers and rights.

ARTICLE VII

STOCK CERTIFICATES

7.1. STOCK CERTIFICATES. Every stockholder shall be entitled to have a certificate certifying the number of shares of stock of the Corporation owned by him, signed by, or in the name of the Corporation by the Chairman of the Board, or Vice-Chairman, President or a Vice President and by the Treasurer or an

Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation (except that when any such certificate is countersigned by a transfer agent other than the Corporation or its employee or by a registrar other than the Corporation or its employee the signature of any such officers may be facsimiles). If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except in the case of restrictions on transfer of securities which are required to be noted on the certificate, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

7.2. LOST, STOLEN OR DESTROYED CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

7.3. RECORD DATES. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

7.4. PROTECTION OF CORPORATION. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of stock to receive dividends and shall not be bound to recognize any equitable or other claim to or interest in such stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

ARTICLE VIII

CORPORATE SEAL

The Corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE IX

EMERGENCY REGULATIONS

The Board of Directors may adopt, either before or during an emergency, as that term is defined by the Delaware General Corporation Law, any emergency regulations permitted by the Delaware General Corporation Law which shall be operative only during an emergency. In the event the Board of Directors does not adopt any such emergency regulations, the special rules provided in the Delaware General Corporation Law shall be applicable during an emergency as therein defined.

ARTICLE X

AMENDMENTS

These By-Laws may be amended or repealed or new by-laws adopted (a) by the affirmative vote of the holders of at least 66 2/3% of the voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class or (b) by action of the Board of Directors at a regular or special meeting thereof. Any by-law made by the Board of Directors may be amended or repealed by action of the stockholders at any annual or special meeting of stockholders.

EXHIBIT 4.5

AMENDMENT NO.2
TO
AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT dated as of October 24, 1997 to the Amended and Restated Credit Agreement dated as of May 30, 1997, as amended as of June 24, 1997 (the "CREDIT AGREEMENT") among VENCOR, INC. ("VENCOR"), the BANKS, SWINGLINE BANK, LC ISSUING BANKS, MANAGING AGENTS and CO-AGENTS party thereto, MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Documentation Agent (the "DOCUMENTATION AGENT") and Collateral Agent, and NATIONSBANK, N.A., as Administrative Agent.

W I T N E S S E T H :

WHEREAS, the parties hereto desire to amend the Credit Agreement to increase by $50,000,000 the amount of Restricted Payments that Vencor is permitted to make;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. DEFINED TERMS; REFERENCES. Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

Section 2. AMENDMENT OF RESTRICTED PAYMENTS COVENANT. Section 5.11 of the Credit Agreement is amended to read as follows:

> Section 5.11. RESTRICTED PAYMENTS. Unless Vencor has an Investment Grade Rating, Vencor will not, and will not permit any Subsidiary to, declare or make any Restricted Payment on or after the Initial Closing Date, except:
>
> (a) any distribution of shares of Ventech Systems, Inc. by Vencor to its own shareholders;
>
> (b) dividends on Equity Securities of Vencor declared and paid during the period from January 1, 1997 to March 31, 1998, inclusive, in an aggregate amount not exceeding $10,000,000;
>
> (c) Restricted Payments (other than dividends on Equity Securities of Vencor) made during the period from January 1, 1997 to March 31, 1998, inclusive, in an aggregate amount not exceeding $100,000,000; and
>
> (d) any other Restricted Payment declared and made after March 31, 1998 if, immediately after such Restricted Payment is declared or made, the aggregate amount of all Restricted Payments declared or made after March 31, 1998 does not exceed the sum of (i) the amount set forth below opposite the period in which the date of such declaration or payment occurs plus (ii) the amount by which $100,000,000 exceeds the aggregate amount of all Restricted Payments made pursuant to clause (c) above:

PERIOD	AMOUNT
April 1, 1998 through March 31, 1999	$10,000,000
April 1, 1999 through March 31, 2000	$20,000,000

April 1, 2000 through March 31, 2001	$30,000,000
April 1, 2001 through March 31, 2002	$40,000,000

provided that in no event shall Vencor or any Subsidiary declare or make any Restricted Payment pursuant to this Section if, immediately before or after giving effect thereto, any Default shall have occurred and be continuing.

SECTION 3. REPRESENTATIONS OF VENCOR. Vencor represents and warrants that (i) the representations and warranties of Vencor set forth in Article 4 of the Credit Agreement will be true on and as of the Amendment Effective Date and (ii) no Default will have occurred and be continuing on such date.

SECTION 4. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 5. COUNTERPARTS. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 6. EFFECTIVENESS. This Amendment shall become effective on the date (the "AMENDMENT EFFECTIVE DATE") when the Documentation Agent shall have received from each of Vencor and the Required Banks a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Documentation Agent) that such party has signed a counterpart hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

VENCOR, INC.

By: /s/ Steven L. Monaghan

Title: Vice President

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

By: /s/ Diana H. Imhof

Title: Vice President

NATIONSBANK, N.A.,

By: /s/ Ashley M. Crabtree

Title: Senior Vice President

BANK OF AMERICA NT & SA,

By: /s/ Edward S. Han

Title: Vice President

THE BANK OF NEW YORK

By: /s/ Edward J. Dougherty, III

Title: Vice President

THE CHASE MANHATTAN BANK

By: /s/ Dawn Lee Lum

Title: Vice President

PNC BANK, KENTUCKY, INC,

By: /s/ Benjamin A. Willingham

Title: Vice President

TORONTO DOMINION (TEXAS), INC.

By: /s/ Darlene Riedel

Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ W. J. Brown

Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Farboud Tavangar

Title: First Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ Christian Bourqui

Title: Associate

By: /s/ Thomas G. Muoio

Title: Vice President

DEUTSCHE BANK AG NEW YORK
AND/OR CAYMAN ISLAND BRANCHES

By: /s/ Iain Stewart

Title: Vice President

By: /s/ Susan L. Peterson

Title: Vice President

FLEET NATIONAL BANK

By: /s/ Ginger Stolzenthaler

Title: Senior Vice President

THE INDUSTRIAL BANK OF JAPAN
TRUST COMPANY

By: /s/ Takuya Honjo

Title: Senior Vice President

WACHOVIA BANK, N.A.,

By: /s/ John B. Tibe

Title: Assistant Vice President

ABN AMRO BANK N.V.

By: /s/ Steven L. Hipsman

Title: Vice President

By: /s/ Linda K. Davis

Title: Vice President

BANK OF MONTREAL

By: /s/ Peter W. Steelman

Title: Director

BANK ONE, KENTUCKY, NA

By: /s/ Dennis P. Heishman

Title: Senior Vice President

COMERICA BANK

By: /s/ Colleen M. Murphy

Title: Assistant Vice President

CORESTATES BANK, N.A.

By: /s/ Elizabeth D. Morris

Title: Vice President

THE FUJI BANK, LIMITED

By: /s/ Tetsuo Kamatsu

Title: Joint General Manager

LTCB TRUST COMPANY

By: /s/ Hiroshi Kitada

Title: Senior Vice President

NATIONAL CITY BANK OF KENTUCKY,

By: /s/ Deroy Scott

Title: Vice President

NBD BANK, N.A.

By: /s/ Christine M. Morrison

Title: Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ Patricia A. Samson

Title: Assistant Vice President

AMSOUTH BANK OF ALABAMA

By: /s/ Keith S. Law

Title: Vice President

BANQUE PARIBAS

By:_____
Title:

By:_____
Title:

FIRST UNION NATIONAL BANK OF
NORTH CAROLINA

By: /s/ Ann M. Dodd

Title: Senior Vice President

U.S. BANK OF WASHINGTON, N.A.

By: /s/ Arnold J. Conrad

Title: Vice President

CIBC, INC.

By: /s/ Judith A. Kirshner

Title: Executive Director

KREDIETBANK, N.V.

By: /s/ Robert Snauffer

Title: Vice President

By: /s/ Tod R. Angus

Title: Vice President

THE MITSUBISHI TRUST AND BANKING CORPORATION

By: /s/ Nobuo Tominaga

Title: Chief Manager

THE SAKURA BANK LIMITED
NEW YORK BRANCH

By:_____
Title:

SOCIETE GENERALE, CHICAGO BRANCH

By:_____
Title:

FIRST AMERICAN NATIONAL BANK

By: /s/ Kent D. Wood

Title: Assistant Vice President

BANK OF LOUISVILLE

BY: /s/ Roy L. Johnson, Jr.

Title: Senior Vice President

THE DAI-ICHI KANGYO BANK, LTD.
CHICAGO BRANCH

By: /s/ Takeo Teramura

Title: Vice President

FIFTH THIRD BANK

By: /s/ Judy R. Semaria

Title: Assistant Vice President

EXHIBIT 10.2

VENCOR RETIREMENT SAVINGS PLAN

Amended and Restated Effective
as of

January 1, 1997

TABLE OF CONTENTS

INTRODUCTION

Effective January 1, 1986, the Board of Directors of Vencor, Inc. (the "Sponsoring Employer"), formerly Vencare, Inc., adopted the Vencare, Inc. Retirement Plan, which was later amended and restated effective January 1, 1989 and further amended various times ("Original Plan").

Effective January 1, 1997, except as otherwise provided, the Employer desires to amend and restate the Prior Plan in its entirety as the Vencor

Retirement Savings Plan ("Plan"), as hereinafter set forth, in order to provide benefits for certain of its eligible employees.

Also effective January 1, 1997, or as soon as practicable thereafter, the Plan and Trust shall accept assets in a spinoff from The Hillhaven Corporation Deferred Savings and Retirement Savings Plans and Employer desires to make provision for how to account for assets transferred from those plans.

It is intended that this Plan, together with the Trust Agreement, meet all the pertinent requirements of the Internal Revenue Code of 1986, as amended ("Code") and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and shall be interpreted, wherever possible, to comply with the terms of said laws, as amended, and all regulations and rulings issued thereunder. It is also intended that this Plan shall be a profit sharing plan under Code Section 401(a).

ARTICLE 1

DEFINITIONS

Section 1.1 ADJUSTMENT means the net increases and decreases in the market value of the Trust Fund during a Plan Year or other period exclusive of any contribution or distribution during such year or other period. Such increases and decreases shall include such items as realized or unrealized investment gains and losses and investment income, and may include expenses of administering the Trust Fund and the Plan.

Section 1.2 ANNUAL ADDITIONS means for any Employee in any Plan Year, the sum of Employer Contributions, Salary Redirection and forfeitures allocated to the Employee's Individual Account. Amounts allocated to an individual medical account, as defined in Section 415(1) of the Code, which is part of a pension or annuity plan maintained by the Company are treated as Annual Additions to a Defined Contribution Plan. Also, amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee as required by Section 419(d) of the Code, maintained by the Company, are treated as Annual Additions to a Defined Contribution Plan.

Section 1.3 BENEFICIARY means any person designated by a Participant to receive such benefits as may become payable hereunder after the death of such Participant, provided, however, that a married Participant may not name as a Beneficiary someone other than the Participant's spouse unless the spouse consents in writing to such designation, which consent shall be acknowledged by a Plan representative or by a notary public.

Section 1.4 BOARD means the Board of Directors of the Sponsoring Employer, except as otherwise provided.

Section 1.5 BREAK(S) IN SERVICE means a Plan Year during which an Employee has been credited with fewer than 501 Hours of Service due to termination of employment. Solely to determine whether a Break in Service has occurred, an Employee who is absent from work for maternity or paternity reasons or on a military or Family and Medical Leave Act leave of absence shall receive credit for the Hours of Service which would otherwise have been credited to such Employee but for such absence, or in any case in which Hours of Service cannot be determined, eight Hours of Service per day of such absence. In no event will the number of Hours of Service credited to an Employee pursuant to the immediately preceding sentence exceed 501. For purposes of this Section, an absence from work for maternity or paternity reasons means an

absence (1) by reason of the pregnancy of the Employee, (2) by reason of the birth of a child of the Employee, (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (4) for purposes of caring for such

child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the Plan Year or other applicable computation period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the next following Plan Year or other applicable computation period.

Section 1.6 CODE means the Internal Revenue Code of 1986, as amended.

Section 1.7 COMMITTEE means the Retirement Committee provided for in Article 8.

Section 1.8 COMPANY means Vencor, Inc. and all of the legal entities which are part of the controlled group or affiliated service group with Vencor, Inc. pursuant to the provisions of Code Sections 414(b), (c), (m) or (o).

Section 1.9 COMPANY STOCK FUND means the Investment Fund defined in Section 4.2(a)(5).

Section 1.10 COMPENSATION means, for any Plan Year or portion thereof during which an Employee is eligible to participate in this Plan (which shall not include compensation payable for periods after employment terminates, such as severance pay, but shall include vacation time earned but not yet paid as of that last date at work), total compensation paid to an Employee by the Employer that is includable in the Participant's gross income, including bonuses, commissions and overtime, but excluding (i) reimbursements or other expense allowances, (ii) fringe benefits (cash and noncash), (iii) moving expenses, (iv) deferred compensation, (v) welfare benefits, and (vi) amounts realized from the exercise of a nonqualified stock option (or the lifting of restrictions on restricted stock) or the sale or exchange of stock acquired under a qualified stock option. Despite the exclusions in the preceding sentence, Compensation shall include any amounts deducted pursuant to Code Sections 125 (flexible benefit plans), 402(a)(8) (salary redirection), 402(h)(1)(B) (simplified employee plans) and 403(b). Effective for Plan Years beginning on or after January 1, 1989, Compensation shall be limited to such amount as determined pursuant to Code Section 401(a)(17).

Section 1.11 CONSTRUCTION. The words and phrases defined in this Article when used in this Plan with an initial capital letter shall have the meanings specified in this Article, unless a different meaning is clearly required by the context. Any words herein used in the masculine shall be read and construed in the feminine where they would so apply. Words in the singular shall be read and construed as though used in the plural in all cases where they would so apply.

Section 1.12 DEFINED BENEFIT PLAN means a plan established and qualified under Section 401 of the Code, except to the extent it is, or is treated as, a Defined Contribution Plan.

Section 1.13 DEFINED CONTRIBUTION PLAN means a plan which is established and qualified under Section 401 of the Code, which provides for an individual account for each participant therein and for benefits based solely on the amount contributed to each participant's account and any income, expenses, gains or losses (both realized and unrealized) which may be allocated to such account.

Section 1.14 EFFECTIVE DATE means January 1, 1986, the original effective date of the Plan. The effective date of this amended and restated Plan is January 1, 1997, except as otherwise provided.

Section 1.15 EMPLOYEE means any person whom the Employer classifies as a common law employee of the Employer and who is paid though the normal payroll system of the Employer, subject to the following:

(a) The term "Employee" shall exclude any person who is a leased Employee.

(b) The term "Employee" shall exclude any employee who is a part of a collective bargaining unit for which benefits have been subject of good faith negotiation unless and until the Employer and the collective bargaining unit representative for that unit through the process of good faith bargaining agree in writing for coverage hereunder.

(c) The term "Employee" shall exclude any employee who is classified on the payroll records of the Employer as "on call" or as a per diem employee.

(d) The term "Employee" shall exclude any employee, even if a common law employee of the Company or an Employer, who works in a facility which is owned by a partnership, or a facility that is managed by the Company pursuant to a management agreement, unless that management agreement provides that certain employees, such as the facility administrator and director of nursing, are to be employed by and report to the Employer, in which case only those employees shall be eligible Employees hereunder.

For purposes of this Section the term "leased employee" shall mean any person who is not an employee of the Company and who provides services to the Employer if (i) such services are provided pursuant to an agreement between the Employer and any other person ("leasing organization"); (ii) such person has performed such services for the Company on a substantially full-time basis for a period of at least one year; and (iii) such services are performed under the primary direction and control of the Company.

Section 1.16 EMPLOYER means Vencor, Inc. and each of the legal entities, or any successor thereto, which is a part of the Company as of January 1, 1997, with the exception

of the following partnership which was part of the Company on that date but which is instead a participating employer in the Retirement Savings Plan for Certain Employees of Vencor and its Affiliates (RSP), also maintained by the Company: San Marcos Nursing Home Partnership. Any entity which becomes part of the Company after January 1, 1997 shall become a participating employer in accordance with the procedure in Article 12.

Section 1.17 EMPLOYER CONTRIBUTIONS means Matching Contributions and Profit Sharing Contributions made to the Trust Fund by the Employer. Salary Redirection shall not be included in the term Employer Contribution when used in this Plan.

Section 1.18 ENTRY DATE means the first day of each calendar month.

Section 1.19 ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Section 1.20 FIDUCIARY means the Employer, the Trustee, the Committee and any individual, corporation, firm or other entity which assumes, in accordance with Article 8, responsibilities of the Employer, the Trustee or the Committee respecting management of the Plan or the disposition of its assets.

Section 1.21 FORMER PARTICIPANT means a Participant whose participation in the Plan has terminated but who has not received payment in full of the balance in his Individual Account to which he is entitled.

Section 1.22 HIGHLY COMPENSATED EMPLOYEE means any Employee of the Employer who (i) was a five percent owner of the Company during the current Plan Year or the preceding Plan Year, or (ii) during the preceding Plan Year, received Compensation from the Company in excess of $80,000 (as such amount may be adjusted from time to time by the Secretary of the Treasury) and, if the Sponsoring Employer elects, was in the top-paid group of employees for such Plan Year.

The determination of who is a Highly Compensated Employee, including the determinations of the number and identity of employees in the top-paid group and the Compensation that is considered, shall be made in accordance with section 414(q) of the Code and the regulations thereunder, taking into account, when appropriate, Code Section 410(b)(6)(C)'s acquisition transition rule which allows exclusion of certain Employees from consideration.. The determination of Highly Compensated Employees shall be determined on a Company-wide basis and shall not be determined on an Employer by Employer or plan by plan basis.

Section 1.23 HOUR OF SERVICE means any hour for which an Employee is paid or entitled to payment by the Company during the Plan Year or other applicable computation period (1) for the performance of duties for the Company; (2) on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated); and (3) as a result of a back pay award

which has been agreed to or made by the Company, irrespective of mitigation of damages, to the extent that such hour has not been previously credited under item (1) or item (2) preceding.

(a) The number of Hours of Service to be credited on account of a period of time during which no duties are performed (including hours resulting form a back pay award) shall be determined as follows. If the payment which is made or due is calculated on the basis of units of time, the number of Hours of Service to be credited shall be the number of regularly scheduled working hours included in the units of time on the basis of which the payment is calculated; if an Employee does not have a regular work schedule, the number of Hours of Service to be credited shall be calculated on the basis of an eight hour work day. If the payment which is made or due is not calculated on the basis of units of time, the number of Hours of Service to be credited shall be calculated by dividing the amount of the payment by the Employee's most recent hourly rate of compensation before

the period during which no duties were performed, determined as follows:

(1) If the Employee's compensation is determined on the basis of an hourly rate, such hourly rate shall be the Employee's most recent hourly rate of compensation.

(2) If the Employee's compensation is determined on the basis of a fixed rate for a specified period of time other than hours, his hourly rate of compensation shall be his most recent rate of compensation for the specified period of time, divided by the number of hours regularly scheduled for the performance of duties during such period of time; if an Employee does not have a regular work schedule, his hourly rate of compensation shall be calculated on the basis of an eight hour work day.

(3) If the Employee's compensation is not determined on the basis of a fixed rate for a specified period of time, his hourly rate of compensation shall be the lowest hourly rate of compensation paid to Employees in his job classification, or, if no Employees in his job classification have an hourly rate of compensation, the minimum wage in effect under Section 6(a)(1) of the Fair Labor Standard Act of 1938, as amended.

(b) In no event shall the application of the terms of Section 1.23(a) result in crediting an Employee with a number of Hours of Service during the period which is greater than the number of hours regularly scheduled for the performance of duties. If an Employee has no regular work schedule, the number of Hours of Service to be credited to him shall not

exceed the number which would be credited calculated on the basis of an eight hour work day.

(c) No Employee shall be credited with more than 501 Hours of Service as a result of the application of Section 1.23(a) for any single continuous period during which he performs no duties, regardless of whether such period extends beyond one Plan Year or other applicable computation period.

(d) The Plan Year or other applicable computation period to which Hours of Service shall be credited shall be determined as follows:

(1) Except as hereinafter provided, Hours of Service credited in accordance with item (1) of the first paragraph of this Section shall be credited in the Plan Year or other applicable computation period in which the duties were performed.

(2) Except as hereinafter provided, Hours of Service credited in accordance with item (2) of the first paragraph of this Section shall be credited: if calculated on the basis of units of time, to the Plan Year or Plan Years or other applicable computation periods in which the period during which no duties are performed occurs, beginning with the first unit of time to which the payment relates; otherwise to the Plan Year or other applicable computation period in which the period during which no duties are performed occurs, provided that if the period during which no

duties are performed extends beyond one (1) Plan Year or other applicable computation period, such Hours of Service shall be allocated between not more than the first two (2) Plan Years or other applicable computation periods on any reasonable basis consistently applied.

(3) Except as hereinafter provided, Hours of Service credited in accordance with item (3) of the first paragraph of this Section shall be credited to the Plan Year or other applicable computation period to which the award or agreement for back pay pertains rather than to the Plan Year or other applicable computation period in which the award, agreement, or payment is made.

(4) Hours of Service to be credited to an Employee in connection with a period of no more than 31 days which extends beyond one Plan Year or other applicable computation period may be credited to the first or the second Plan Year or other applicable computation period, provided that such crediting is done on a reasonable and nondiscriminatory basis.

(e) Nothing in this Section shall be construed to alter, amend, modify, invalidate, impair or supersede any law of the United States or any rule or regulation issued under any such law, including but not limited to laws regarding eligibility and benefit accrual during and after a military leave of absence. The nature and extent of any credit for Hours of Service under this Section shall be determined under such law including Department of Labor regulation Section 2530.200b-2.

Section 1.24 INDIVIDUAL ACCOUNT means the detailed record kept of the amounts credited or charged to each Participant in accordance with the terms hereof. Such Individual Account is comprised of the following accounts: a Profit Sharing Contribution Account, a Salary Redirection Account, a Matching Contribution Account, a Prior Plan Salary Redirection Account, if applicable, and a Prior Plan Employer Contribution Account, if applicable.

Section 1.25 INVESTMENT FUND means an investment fund established pursuant to Section 4.2.

Section 1.26 KEY EMPLOYEE shall mean any Employee, former Employee or beneficiary thereof in an Internal Revenue Service qualified plan adopted by the Company who at any time during the Plan Year or any of the four preceding Plan Years is

(a) an officer of the Company having an annual compensation from the Company during the Plan Year greater than 50% of the amount in effect under Code Section 415(b)(1)(A) for the calendar year in which such Plan Year ends;

(b) one of the 10 Employees having an annual compensation from the Company for a Plan Year of more than the limitation in effect under Code Section 415(c)(1)(A) for the calendar year in which such Plan Year ends and owning (or considered as owning within the meaning of Code Section 318) both more than a 1/2% interest, and the largest interest in the Company;

(c) a five percent owner of the Company; or

(d) a one percent owner of the Company having an annual compensation from the Company for a Plan Year of more than $150,000.

(e) For purposes of this Section, compensation mean compensation as defined in Code Section 415.

(f) This definition shall be interpreted consistent with Code Section 415 and rules and regulations issued thereunder. Further, such law and regulations shall be controlling in all determinations under this definition, inclusive of any provisions and requirements stated thereunder but hereinabove absent.

Section 1.27 LIMITATION YEAR means the 12 month period beginning on January 1 and ending on December 31.

Section 1.28 MATCHING CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Matching Contributions allocated to such Participant pursuant to Section 3.2 and (ii) the Participant's proportionate share, attributable to his Matching Contribution Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.29 MATCHING CONTRIBUTIONS means contributions made to the Trust Fund by the Employer pursuant to Section 3.2

Section 1.30 NON-HIGHLY COMPENSATED EMPLOYEE means, for any Plan Year, a Participant who is not a Highly Compensated Employee.

Section 1.31 NORMAL RETIREMENT DATE means the first day of the month coincident with or next following the Participant's 65th birthday. The Normal Retirement Age shall be age 65, except with respect to any Prior Plan Employer Contribution Account transferred to this Plan from The Hillhaven Corporation Retirement or Deferred Savings Plans, for which the Normal Retirement Age shall be age 60.

Section 1.32 PARTICIPANT means any Employee who becomes a Participant as provided in Article 2 hereof.

Section 1.33 PERMISSIVE AGGREGATION GROUP means the Required Aggregation Group and each other plan or plans of the Company that are not required to be included in the Required Aggregation Group, and which, if treated as being part of such group, would not cause such group to fail to meet the requirements of Code Sections 401(a) and 410.

Section 1.34 PLAN means the Vencor Retirement Savings Plan.

Section 1.35 PLAN YEAR means the 12 month period beginning on January 1 and ending on December 31.

Section 1.36 PRIOR PLAN means the plan of any Employer, the assets of which are merged, in whole or in part, with the Trust Fund.

Section 1.37 PRIOR PLAN EMPLOYER CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) any employer contributions and accumulated earnings allocated to such Participant under the terms of a plan which has been merged into this Plan, and (ii) the Participant's proportionate share attributable to his Prior Plan Employer Contribution Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.38 PRIOR PLAN SALARY REDIRECTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) any pretax deferrals and accumulated earnings allocated to such Participant under the terms of a plan which has been merged into this Plan and (ii) the Participant's proportionate share attributable to his Prior Plan Salary Redirection Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.39 PROFIT SHARING CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Profit Sharing Contributions allocated to such Participant pursuant to Section 3.3, and (ii) the Participant's proportionate share attributable to his Profit Sharing Contribution Account, of the Adjustments, reduced by any distributions from such account.

Section 1.40 PROFIT SHARING CONTRIBUTIONS mean contributions made to the Trust Fund by the Employer pursuant to Section 3.3.

Section 1.41 REQUIRED AGGREGATION GROUP means

(1) each plan of the Company in which a Key Employee is a participant; and

(2) each other plan of the Company which enables any plan in subsection (1) to meet the requirements of Code Sections 401(a)(4) or 410, and

(3) each terminated plan maintained by the Company within the last five years ending on the determination date for the Plan Year in question and which, but for the fact that it terminated, would be part of a Required Aggregation Group for such Plan Year.

Section 1.42 SALARY REDIRECTION means contributions made to the Trust Fund by the Employer pursuant to Section 3.1.

Section 1.43 SALARY REDIRECTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Salary Redirection amounts made on his behalf pursuant to Section 3.1, and (ii) the Participant's proportionate share, attributable to his Salary Redirection Account, of the Adjustments, reduced by any distributions or withdrawals from such Account.

Section 1.44 SERVICE means each Plan Year during which a Participant has been credited with 1000 or more Hours of Service for the Company or for another employer during a period that employer participates in the Retirement Savings Plan for Certain Employees of Vencor and Affiliates or its predecessor plans (whether before or after participation begins) subject to the following:

(a) Years of Service prior to the date an Employee attains age 18 shall not be taken into account in determining that a Participant's vesting percentage pursuant to Section 5.5.

(b) Years of Service prior to the January 1, 1986, shall not be taken into account in determining a Participant's vesting percentage pursuant to Section 5., except as provided in Subsections (c) and (g) below.

(c) Service shall include periods of employment with any entity acquired by the Company or any entity which operates a facility acquired by the Company, provided that no Employee shall receive credit for more than seven years of Service as a result of periods of employment with said entity and

provided that said entity is either listed on Appendix "A" or maintained a plan that has been merged with this Plan. If the entity's records are inadequate to determine Hours of Service for years of employment with the entity, Service will be credited (subject to the seven year limitation) from the Employee's most recent date of hire with the acquired entity, rounded to the nearest whole year.

(d) Years of Service prior to a Break in Service shall not be taken into account until such time as the Employee has completed a year of Service after he returns to the employ of the Company.

(e) If the Employee does not have a nonforfeitable interest in his Employer-provided benefit, and the Employee incurs consecutive Breaks in Service, the Employee's Service prior to the Breaks in Service will be disregarded if the consecutive Breaks in Service equal or exceed the greater of (i) five, or (ii) the Employee's Service prior to the Break in Service.

(f) Years of Service after five or more consecutive Breaks in Service shall not be taken into account in determining the vesting percentage of a Participant pursuant to Section 5.5 derived from Employer Contributions subject to said vesting schedule made before such five consecutive Breaks in Service.

(g) Service with a predecessor employer will be credited to an employee as Service for the Employer as required pursuant to Code Section 414(a). For purposes of this Subsection, a predecessor employer is an employer who sponsored a plan qualified under Code Section 401(a) which is maintained by the Company.

Section 1.45 TOP HEAVY PLAN means any plan under which, as of any determination date (the last day of the preceding Plan Year), the present value of the cumulative accrued benefits under the plan for Key Employees exceeds 60% of the present value of cumulative accrued benefits under the Plan for all Employees. For purposes of this definition the following provisions shall apply:

(a) If such plan is a Defined Contribution Plan, the present value of cumulative accrued benefits shall be deemed to be the market value of all Employee accounts under the plan, other than voluntary deductible

Employee contributions. If such plan is a Defined Benefit Plan, the present value of cumulative accrued benefits shall be the lump sum present value determined pursuant to the plan. Moreover, the present value of the cumulative accrued benefits shall be increased by the amount of all Plan distributions made with respect to a current or former employee during the five year period ending on the determination date, including distributions under a terminated plan which, if it had not been terminated, would have been required to be included in a Required Aggregation Group.

(b) A plan shall be considered to be a Top Heavy Plan for any Plan Year if, on the last day of the preceding Plan Year, the above rules were met. For the first Plan Year that the Plan shall be in effect, the determination of whether the Plan is a Top Heavy Plan shall be made as of the last day

of such Plan Year.

(c) Each plan of the Company required to be included in a Required Aggregation Group shall be treated as a Top Heavy Plan if such group is a top heavy group.

(d) With regard to a Participant or former Participant who (i) has not performed any service for the Company at any time during the five year period ending on the determination date, or (ii) was formerly a Key Employee, but who is not a Key Employee on the determination date, the present value of the cumulative Accrued Benefit for such Participant or former Participant shall not be taken into account for the purposes of determining whether this Plan is a Top Heavy Plan.

(e) This definition shall be interpreted consistent with Code Section 416 and rules and regulations issued thereunder. Further, such law and regulation shall be controlling in all determinations under this definition inclusive of any provisions and requirements stated thereunder but hereinabove absent.

Section 1.46 TOTAL AND PERMANENT DISABILITY OR TOTALLY AND PERMANENTLY DISABLED means a physical or mental condition arising after the original date of employment of the Participant which is expected to totally and permanently prevent him from substantially performing his usual duties with the Employer or from performing like duties for which he is reasonably qualified based upon education, experience and abilities. The determination by the Committee as to whether a Participant is totally and permanently disabled shall be made (i) on medical evidence by a licensed physician designated by the Committee, (ii) on evidence that the Participant is eligible for disability benefits under any long-term disability plan sponsored by the Employer, or (iii) on evidence that the Participant is eligible for disability benefits under the Social Security Act in effect at the date of disability.

Section 1.47 TRUST AGREEMENT means the agreement entered into between the Sponsoring Employer and the Trustee pursuant to Article 7 hereof.

Section 1.48 TRUST FUND means the trust fund created in accordance with Article 7 hereof.

Section 1.49 TRUSTEE means such individual or corporation as shall be designated in the Trust Agreement to hold in trust any assets of the plan for the purpose of providing benefits under the Plan, and shall include any successor trustee designated thereunder.

Section 1.50 VALUATION DATE means each date on which the U.S. securities trading markets are open on or after January 1, 1997. As of each Valuation Date the Trust Fund shall be valued at fair market value.

ARTICLE 2

PARTICIPATION

Section 2.1 ELIGIBILITY REQUIREMENTS

(a) Effective January 1, 1997, any Employee who has attained the age of 21 and has remained an Employee until 12 months following the first date on which the Employee logged an Hour of Service, shall be eligible as of that Entry Date, provided, however, that an Employee who does not meet these rules shall nonetheless be eligible no later than the Entry Date coincident with or next following the [1] completion of 1000 Hours of Service in a 12 consecutive month period and [2] attainment the age of 21. Thereafter, the period shall be the Plan Year in which occurs the anniversary of the date the Employee completes his first Hour of Service.

(b) Any employee who was in a class of employees eligible to participate in The Hillhaven Corporation Retirement Saving Plan or The Hillhaven Corporation Deferred Saving Plan ("Affiliate Plans") prior to January 1, 1997 shall be eligible to participate in this Plan on January 1, 1997 if, at that date, that employee is employed in a capacity defined as an Employee in this Plan. Any other Employee hired prior to January 1, 1997 shall become eligible for the Plan at the next Entry Date coincident with or following the date they meet the eligibility rule applicable to them at their hire date under the Affiliate Plan for which they would have become eligible on their hire date (i.e. immediately for Deferred Savings Plan participants, and one year for Retirement Saving Plan participants), except that the 500 Hour of Service requirement previously applicable under this Plan, for persons not previously in a class of employment that would have been eligible to participate in an Affiliate Plan, shall be waived: those Employees shall be eligible to participate as of the next Entry Date coincident with or next following the completion of a six consecutive month period of employment as an Employee after the attainment of age 21.

(c) In the case of any person actively employed on January 6, 1990 at Vencor Hospital/Ft. Worth or Mansfield Community Hospital, said person shall be deemed to have completed his first Hour of Service on January 1, 1990.

(d) For purposes of this Section, in the event that an employee of the Company that is not a Participating or Sponsoring Employer in this Plan, or an employee of any company which participates in the Retirement Savings Plan for Certain Vencor Employees and Affiliates ("RSP") also maintained by the Company, becomes an Employee as defined in Section 1.15 (either because of a change in employment status or adoption of this

Plan by the entity by which he is employed), all periods of service while an employee of the Company or of a company which participates in the RSP, shall be counted for purposes of determining eligibility to participate in the Plan. In all events, this Plan and the RSP shall be construed so that, at no point in time, does any one Participant have a right to participate in both this Plan and the RSP.

Section 2.2 PLAN BINDING

Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan and the Trust Agreement, including all amendments to the Plan and the Trust Agreement made in the manner herein authorized.

Section 2.3 REEMPLOYMENT AND TRANSFERS

Solely for purposes of this Section 2.3, the following rules shall apply:

(a) Termination of employment shall be deemed to occur when an Employee has an interruption in continuity of his employment by the Employer. Such termination may have resulted from retirement, death, voluntary or involuntary termination of employment, unauthorized absence, or by failure to return to active employment with the Employer or to retire by the date on which an authorized leave of absence expired.

(b) If an Employee who was not eligible to become a Participant in the Plan during his prior period of employment is reemployed, he shall be eligible to participate in the Plan after he has met the requirements of Section 2.1(a), calculated from his original date of hire, unless he has had a one-year Break in Service, in which case Service before such Break in Service shall not be taken into account for purposes of this Section until the Employee has met the requirements of Section 2.1(a) calculated from his date of rehire.

(c) If an Employee who was a Participant in the Plan during his prior period of employment (or who had met the age and service requirements of Section 2.1(a) or (b) but did not remain employed until the applicable Entry Date) is reemployed, he shall be eligible to again become a Participant as of the Entry Date first following his date of rehire.

(d) If an Employee transfers employment from a non-adopting employer which is a part of the Company or which participates in the RSP (as defined in Section 2.1(d)) to the Employer (for purposes of this Section, an "Affiliate"), the Employee shall become a Participant under this Plan as of the date of transfer of employment to the Employer, provided he has been employed by the Affiliate, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), calculated

from his original date of hire with the Affiliate. If the Employee who transfers employment from an Affiliate to the Employer has not been employed, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), he shall become a Participant under this Plan upon meeting the eligibility requirements of Section 2.1(a) or (b), counting all past Service with the Affiliate for that purpose.

(e) The Individual Account in this Plan of an Employee who transfers to or from an Affiliate shall remain in this Plan and be eligible for the same Investment Funds as an active Participant. No distribution shall be made of an Individual Account (other than on account of hardship or after age 70 1/2) until and unless the former Employee has terminated service with all Affiliates.

Section 2.4 BENEFICIARY DESIGNATION

Upon commencing participation, each Participant shall designate a Beneficiary on forms furnished by the Committee. Such

Participant may then from time to time change his Beneficiary designation by written notice to the Committee and, upon such change, the rights of all previously designated Beneficiaries to receive any benefits under this Plan shall cease. A married Participant may not name as a Beneficiary someone other than the Participant's spouse unless the spouse consents in writing to such other designation, which consent shall be acknowledged by a Plan representative or by a notary public. The consent of the spouse must be limited to a specific Beneficiary and must be obtained each time the Beneficiary is changed. If, at the time of a Participant's death while benefits are still outstanding, his named Beneficiary does not survive him, the benefits shall be paid to his named contingent Beneficiary. If a deceased Participant is not survived by either a named Beneficiary or contingent Beneficiary (or if no Beneficiary was effectively named), the benefits shall be paid in a single sum to the person or in equal parts to the persons in the first of the following classes of successive preference beneficiaries then surviving: the Participant's (i) surviving spouse, unless the spouse disclaims the benefit, (ii) natural and adopted children, (iii) parents, (iv) brothers and sisters, (v) estate. If the Beneficiary or contingent Beneficiary is living at the death of the Participant, but such person dies prior to receiving the entire death benefit, the remaining portion of such death benefits shall be paid in a single sum to the estate of such deceased Beneficiary or contingent Beneficiary.

Section 2.5 NOTIFICATION OF INDIVIDUAL ACCOUNT BALANCE

After the end of each calendar quarter, or more frequently as determined by the Committee, the Committee shall notify each Participant of the amount of his share in the Adjustments and Contributions for the period just completed, and the new balance of his Individual Account.

ARTICLE 3

CONTRIBUTIONS

Section 3.1 SALARY REDIRECTION

Each Participant may elect to have Salary Redirection made on his behalf by agreeing to salary reduction contributions from cash wages payable via an identity-secure telephonic enrollment system (or in writing, if the telephonic system is impracticable) ("IVR"). A new Participant in this Plan who was, immediately prior to becoming an Employee, a Participant in the Hillhaven Retirement or Deferred Savings Plans, shall be deemed to have made a salary reduction agreement for this Plan in the same amount as was in effect for the that other plan, unless and until the Participant changes his salary reduction agreement by the IVR.

(a) Salary Redirection each payroll period must equal an whole percentage from 1% to 16% of a Participant's Compensation. Salary Redirection shall begin, be increased or revoked effective with the first pay date processed in the month after a Participant has entered into or changed his salary reduction agreement via IVR, provided that such enrollment is concluded before 11:59 p.m. Central Standard Time on the 15th day of the month (the "enrollment deadline"). In the event a Participant does not so elect when initially eligible, he may subsequently elect to have Salary Redirection made on his behalf at any time effective for the first pay date in the month after the Participant has

entered into a salary reduction agreement via IVR, subject to the enrollment deadline.

(b) The Employer shall pay to the Trustee any Salary Redirection made on behalf of any Participant as soon as practicable following the end of each regular pay period.

(c) The Employer may amend, to the extent it deems appropriate, a Participant's salary reduction Agreement for any Plan Year or portion thereof if the Employer determines that such amendment is necessary to ensure that a Participant's Annual Additions for any Plan Year might exceed the limitations of Sections 3.4, 3.5, 3.6 or 4.5 the requirements of Code Sections 401(k) or (m) or such other requirements prescribed by law.

Section 3.2 MATCHING CONTRIBUTIONS

As of the end of each calendar quarter, the Employer may make a Matching Contribution to the Trust Fund on behalf of eligible Participants. If Matching Contributions (in cash or in sponsoring Employee Stock) are made prior to the end of a calendar quarter, they shall nonetheless be left unallocated until the

quarter ends. The Employer shall determine annually the rate at which the Employer will match net eligible Salary Redirection of eligible Participants contributed pursuant to Section 3.1. Net eligible Salary Redirection means Salary Redirection not to exceed 3% of Compensation, during the period since the last preceding calendar-quarter end, which Salary Redirection has not been withdrawn since the preceding calendar-quarter end. For purposes of calculating net eligible Salary Redirection, withdrawals shall be deemed to have been made from the earliest Salary Redirection not yet withdrawn. Any Matching Contribution shall be allocated to the Matching Contribution Account of each eligible Participant. For purposes of this Section, the term "eligible Participant" shall mean a Participant who is either (i) actively employed by the Company or an employer which participates in the Retirement Savings Plan for Certain Employees of Vencor and Affiliates (even if not still an "Employee") as of the end of each calendar quarter, or (ii) died since the end of the preceding calendar quarter, or (iii) retired or became disabled pursuant to Section 5.1, 5.2, or 5.4 since end of the preceding calendar quarter, or (iv) on a Family and Medical Leave Act leave of absence at the end of the calendar quarter.

Section 3.3 PROFIT SHARING CONTRIBUTIONS

As of the last day of each Plan Year, the Employer may make a Profit Sharing Contribution to the Trust Fund. Any such Profit Sharing Contribution shall be allocated to the Profit Sharing Contribution Account of each Participant who (i) has satisfied the eligibility requirements of Section 2.1 (without regard to whether the Participant has made an election pursuant to Section 3.1), (ii) is actively employed by the Company on said date and in a class which is included in the definition of "Employee," and (iii) has been credited with at least 1000 Hours of Service during the Plan Year. Any such Profit Sharing Contribution shall also be allocated to the Profit Sharing Account of each Former Participant (i) who died since the end of the preceding Plan Year, or (ii) who retired or became disabled pursuant to Section 5.1, 5.2, or 5.4 since the end of the preceding Plan Year, (iii) who is on a Family and Medical Leave Act leave of absence on the

last day of the Plan Year. Any such Profit Sharing Contributions shall be allocated to the Profit Sharing Contribution Accounts of the Participants described in the two immediately preceding sentences in the proportion that each such Participant's Compensation during the Plan Year bears to the total Compensation of all such Participants and Former Participants during such Plan Year.

Section 3.4 NONDISCRIMINATION TEST FOR SALARY REDIRECTION

(a) Periodically as determined by the Committee, the Employer shall check the actual deferral percentages against the tests identified below.

(b) The term "eligible Participants," for purposes of this Section shall mean all Participants under this Plan who are eligible to make Salary

Redirection contributions during the Plan Year for which the tests are being made.

(c) The term "actual deferral percentage," means the average of the percentages (calculated separately for each eligible Participant) of Salary Redirection and Qualified Nonelective Contributions on behalf of each eligible Participant divided by the compensation of the eligible Participant.

(d) The term "compensation" for purposes of this Section shall include Compensation is defined in Treasury Regulations (S)1.414(s)-1T(c)(1) and (2) as modified by Treasury Regulation (S)1.414(s)-1T(c)(4), applied uniformly to all employees for any Plan Year or portion thereof during which they are eligible to participate. Compensation for purposes of this Section shall be limited pursuant to Code Section 401(a)(17).

(e) Only one of the following two tests need be satisfied not to have a reduction in Salary Redirection.

Test I - The actual deferral percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual deferral percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by 1.25.

Test II - The excess of the actual deferral percentage for the current Plan Year of the group of Highly Compensate Employees over the actual deferral percentage for the preceding Plan Year of all Non-Highly Compensated Employees is not more than two percentage points, and the actual deferral percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual deferral percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by two. If Test II in Subsection 3.5(e) is used in testing other contributions pursuant to that Section, Test II under this Section shall be limited as provided for in Code Section 401(m)(9) and the regulations issued by the Secretary of the Treasury of notices issued by the Internal Revenue Service. If a multiple use of Test II occurs, such multiple use shall be corrected by reducing either the actual deferral percentage or actual contribution percentage of the Highly Compensated

Employee in an amount calculated in the manner provided in Section 3.4(f) or Section 3.5(f).

Notwithstanding the above, the Sponsoring Employer may elect to perform the tests using the Average Actual Deferral Percentage for the current Plan Year for Participants who are Non-Highly Compensated Employees for the current Plan Year rather than using prior Plan Year data, provided that if such election is made for the 1998 or a later Plan Year, the test must continue to be performed based on current Plan Year data until the election is changed in a manner prescribed by the Secretary of the Treasury. Unless the Sponsoring Employer elects to use current Plan Year data, the Participants taken into account in determining the prior Plan Year's Average Actual Deferral Percentage for Non-Highly Compensated Employees are those individuals who were Non-Highly Compensated Employees during the preceding Plan Year, without regard to the Participants' status during the current Plan Year (i.e., a Participant who was a Non-Highly Compensated Employee for the preceding Plan Year is included in the calculation as a Non-Highly Compensated Employee even if the Participant is no longer employed by the Employer or has become a Highly Compensated Employee for the current Plan Year). For the 1997 Plan Year, the determination of who was a Non-Highly Compensated Employee for the 1996 Plan Year shall be made using the definition of Non-Highly Compensated Employee in effect prior to this restatement.

For purposes of these tests, the actual deferral percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Salary Redirection allocated to his accounts under two or more arrangements described in Code Section 401(k) that are maintained by the Company, shall be determined as if such Salary Redirection were made under a single arrangement.

(f) If neither Test I nor Test II is initially satisfied for any Plan Year, the Plan shall nevertheless be deemed to comply with the requirements of Section 401(k)(3)(A)(ii) of the Code for such Plan Year if, before the last day of the following Plan Year, the amount of any excess contribution (and any income thereon) is distributed to Participants who are Highly Compensated Employees. The amount to be returned shall be determined as follows:

[i] Calculate the dollar amount that would be returned to each Highly Compensated Employee if the Average Deferral Percentage of Highly Compensated Employees were reduced by returning Salary Redirection contributions to such Participants, beginning with those Highly Compensated Employees' with the highest Actual Deferral Percentage and only to the extent necessary to meet either test above.

[ii] Determine the total of the dollar amounts calculated in Step [i], and return that amount to Highly Compensated Employees in accordance with Steps [iii] and [iv] below by distributing Salary Redirection contributions as Excess Contributions. Excess Contributions, adjusted for any income or loss allocable thereto, may be distributed before the end of the following Plan Year to Participants on whose

behalf such Excess Contributions were made for such preceding Plan Year. Excess Contributions shall be adjusted for income or loss, and the income or loss allocable to Excess Contributions shall be determined by multiplying the income or loss allocable to the Participant's Salary Redirection contributions for the Plan Year by a fraction, the numerator of which is the Excess Contribution on behalf of the Participant for the preceding Plan Year and the denominator of which is the value of the Participant's Salary Redirection Account on the last day of the preceding Plan Year.

[iii] Reduce the Salary Redirection contributions of the Highly Compensated Employee with the highest dollar amount of Salary Redirection contributions by the amount required to cause that Highly Compensated Employee's Salary Redirection contributions to equal the dollar amount of the Salary Redirection contributions of the Highly Compensated Employee with the next highest dollar amount of Salary Redirection Contributions. However, if a lesser reduction would equal the total remaining excess contributions to be distributed, the lesser reduction amount is distributed.

[iv] If the total amount distributed is less than the total excess contributions from Step [ii], Step [iii] is repeated.

If it is necessary to reduce the matched Salary Redirection, the Participant shall nevertheless receive from the Plan a distribution equal to the vested portion of the Employer Matching Contribution plus any income thereon that would have been allocated to him had such reduction in contribution not been necessary. Any remaining portion of the Matching Contribution shall be forfeited in accordance with the provisions of Section 5.5.

Section 3.5 NONDISCRIMINATION TEST FOR OTHER CONTRIBUTIONS

(a) Periodically as determined by the Committee, the Employer shall check the actual contribution percentages against the tests identified below.

(b) The term "eligible Participants," for purposes of this Section, shall mean all Participants under this Plan who are eligible to make Salary

Redirection contributions, and receive Matching Contributions during the Plan Year for which the tests are being made.

(c) The term "actual contribution percentage," means the average of the following percentages (calculated separately for each eligible Participant): Matching Contributions (and Salary Redirection to the extent elected by the Employer and permitted by Regulations under Code Section 401(m)) on behalf of each eligible Participant divided by compensation of the eligible Participant.

(d) The term "compensation" for purposes of this Section shall include compensation as defined in Treasury Regulations (S)1.414(s)-1T(c)(1) and (2) as modified by Treasury Regulation (S)1.414(s)-1T(c)(4), applied uniformly to all

employees for any plan year or portion thereof during which they are eligible to participate. Compensation for purposes of this Section shall be limited pursuant to Code Section 401(a)(17).

(e) Only one of the following two test need be satisfied not to have a reduction in contribution tested pursuant to this Section.

Test I - The actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by 1.25.

Test II - The excess of the actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees over the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees is not more than two percentage points, and the actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by two. If Test II in Subsection 3.4(e) is used in testing Salary Redirection pursuant to that Section, Test II under this Section shall be limited as provided for in Code Section 401(m)(9) and the regulations issued by the Secretary of the Treasury of notices issued by the Internal Revenue Service. If a multiple use of Test II occurs, such multiple use shall be corrected by reducing either the actual deferral percentage or actual contribution percentage of the Highly Compensated Employee in an amount calculated in the manner provided in Section 3.4(f) or Section 3.5(f).

Notwithstanding the above, the Sponsoring Employer may elect to perform the tests using the Average Contribution Percentage for the current Plan Year for Participants who are Non-Highly Compensated Employees for the current Plan Year rather than using prior Plan Year data, provided that if such election is made for the 1998 or a later Plan Year, the test must continue to be performed based on current Plan Year data until the election is changed in a manner prescribed by the Secretary of the Treasury. Unless the Sponsoring Employer elects to use current Plan Year data, the Participants taken into account in determining the prior Plan Year's Average Contribution Percentage for Non-Highly Compensated Employees are those individuals who were Non-Highly Compensated Employees during the preceding Plan Year, without regard to the Participants' status during the current Plan Year (i.e., a Participant who was a Non-Highly Compensated Employee for the preceding Plan Year is included in the calculation as a Non-Highly Compensated Employee even if the Participant is no longer employed by the Employer or has become a Highly Compensated Employee for the current Plan Year). For the 1997 Plan Year, the determination of who was a Non-Highly Compensated Employee for the 1996 Plan Year shall be made using the definition of Non-Highly Compensated Employee in effect prior to this

restatement.

For purposes of these tests, the actual contribution percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Matching Contributions allocated to his accounts under two or more arrangements described in Code Section 401(k) that are maintained by the Company, shall be determined as if such Matching Contributions were made under a single arrangement.

(f) If neither Test I nor Test II is initially satisfied for any Plan Year, the Plan shall nevertheless be deemed to comply with the requirements of Section 401(m) of the Code for such Plan Year if, before the last day of the following Plan Year, the amount of any excess contribution (and any income thereon) is distributed to Participants who are Highly Compensated Employees or if forfeitable, is forfeited. The amount to be reduced shall be determined as follows:

[i] Calculate the dollar amount by which each Highly Compensated Employee's Employer Matching contributions must be reduced to pass wither test, beginning with those Highly Compensated Employees with the highest Contribution Percentage and only to the extent necessary to meet either test above.

[ii] Determine the total of the dollar amounts calculated in Step [i], and reduce Highly Compensated Employees' Employer Matching contributions in accordance with Steps [iii] and [iv] below.

[iii] Reduce the Employer Matching contributions of the Highly Compensated Employee with the highest dollar amount of Employer Matching contributions by the amount required to cause that Highly Compensated Employee's Employer Matching contributions to equal the dollar amount of the Employer Matching contributions of the Highly Compensated Employee with the next highest dollar amount of Employer Matching contributions. However, if a lesser reduction would equal the total remaining excess contributions to be distributed, the lesser reduction amount is distributed.

[iv] If the total amount distributed is less than the total excess contributions from Step [ii], Step [iii] is repeated.

If it is necessary to reduce the Employer Matching Contribution, the Participant shall nevertheless receive from the Plan a distribution equal to the vested portion of the Employer Matching Contribution plus any income thereon that would have been allocated to him had such reduction in contribution not been necessary. Any remaining portion of the Matching Contribution shall be forfeited in accordance with the provisions of Section 5.5.

(g) This Section shall be governed by Code Section 401(m) and any rules or regulations issued pursuant thereto, which may include coordination and/or combination with allocations subject to Section 401(k) in accordance with Treasury Regulation Section 1.401(m)-2.

Section 3.6 MAXIMUM INDIVIDUAL DEFERRAL

A Participant shall not be permitted to have his Employer redirect an amount in excess of $9,500 in any calendar year pursuant to the provisions of Section 3.1, including contributions to any other plan of the Company which are made pursuant to Code Section 402(a)(8). The $9,500 limitation shall be adjusted in accordance with cost-of-living adjustments made by the Secretary of the Treasury pursuant to Code Section 402(g)(5). If any amount is redirected pursuant to Section 3.1 in excess of this limit (as adjusted), or if a Participant notifies the Committee, in writing, by March 1 following the close of the taxable year of the amount contributed in excess of this limit (as adjusted) to all plans pursuant to Code Section 402(a)(8), such amount shall be deemed an "excess deferral" and the Committee shall direct the Trustee to distribute to the Participant (not later than the April 15 following the calendar year in which the excess deferral was made) the amount of the excess deferral plus any income allocable to such amount.

Section 3.7 MISTAKE OF FACT

If due to a mistake of fact, Employer Contributions to the Trust Fund for any Plan Year exceed the amount intended to be contributed, notwithstanding any provision to the contrary, the Employer, as soon as such mistake of fact is discovered, shall notify the Trustee. The Employer shall direct that the Trustee return such excess to the Employer, provided such return is made within one year of the date on which the Employer made the contribution.

Section 3.8 QUALIFIED NONELECTIVE CONTRIBUTIONS

The Employer may, as of the end of any calendar quarter, make a Qualified Nonelective Contribution to the Trust Fund on behalf of any Participant with a Prior Plan Employer Contribution Account or Prior Plan Salary Redirection Account in an amount equal to the surrender charges assessed by the insurer which held the assets in those accounts in the plan which was merged into this Plan. Such Qualified Nonelective Contributions shall be added to the Salary Redirection Accounts of those Participants in amounts equal to the allocation of the surrender charges to the Participant's combined Prior Plan Employer and Prior Plan Salary Redirection Accounts, shall be 100% vested when made, subject to the same distribution rules as Salary Redirection Contribution, and shall be tested for nondiscrimination as Salary Redirection Contributions in accordance with the provisions of Section 3.4.

Section 3.9 UNIFORMED SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT OF 1994 ("USERRA")

Effective December 12, 1994, notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

Section 414(u) generally provides that an employer maintaining a plan shall be treated as meeting the requirements of USERRA only if an employee reemployed under USERRA is treated as not having incurred a break in service because of the period of military service, the employee's military service is treated as service with the employer for vesting and benefit accrual purposes, the employee is permitted to make additional elective deferrals and

employee contributions in an amount not exceeding the maximum amount the employee would have been permitted or required to contribute during the period of military service if the employee had actually been employed by the employer during that period ("make-up contributions"), and the employee is entitled to any accrued benefits that are contingent on employee contributions or elective deferrals to the extent the employee pays the contributions or elective deferrals to the plan. Make-up contributions must be permitted during the period that begins on the date of reemployment and continues for five years or, if less, three times the period of military service. With respect to make-up contributions, the employer must make

matching contributions that would have been required if the make-up contributions had actually been made during the period of military service.

Section 414(u) provides that an employee is treated as receiving compensation from the employer during the period of military service equal to the compensation the employee otherwise would have received from the employer during that period, or, if the compensation the employee otherwise would have received is not reasonably certain, the employee's average compensation from the employer during the period immediately preceding the period of military service. For purpose of (S) 414(u), USERRA is not treated as requiring the crediting of earnings to an employee with respect to any contribution before the contribution is actually made or requiring any allocation of forfeitures to the employee for the period of military service.

Section 414(u) generally provides that a contribution that is made by an employer or employee to an individual account plan or by an employee to a contributory defined benefit plan, and that is required under USERRA, is taken into account for purposes of the limitations of Section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415 or 457 in the year to which the contribution relates, not the year in which the contribution is made. In addition, Section 414(u) provides that a plan is not treated as failing to meet the requirements of Section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k)(3), 408(k)(6), 408(p), 410(b), or 416 because of the contribution (or the right to make the contribution).

ARTICLE 4

ALLOCATION TO INDIVIDUAL ACCOUNTS

Section 4.1 INDIVIDUAL ACCOUNTS

The Committee shall establish and maintain an Individual Account in the name of each Participant to which the Committee shall credit all amounts allocated to each such Participant pursuant to Article 3 and the following Sections of this Article.

Section 4.2 INVESTMENT OF ACCOUNTS

(a) There shall be established the following Investment Funds within the Trust Fund:

(1) INTEREST INCOME - A fund generally invested in investment contracts with banks and insurance companies to generate interest income returns above

the rates earned by money market funds, while generally maintaining a stable principal value. This fund may also be referred to as the Stable Value Fund.

(2) BALANCED FUND - A fund consisting of both fixed income obligations of the United States Government and its agencies and of companies other than the Sponsoring Employer to provide protection of principal consistent with an attractive rate of return, and equity investments other than the common stock of the sponsoring employer.

(3) GROWTH FUND - A fund consisting primarily of common stocks with an objective of capital growth over both the intermediate and long-term.

(4) AGGRESSIVE GROWTH FUND - a fund consisting primarily of common stocks of companies that are early in their life cycle and which have the potential to grow significantly, with the objective to provide long term capital appreciation without regard to current income.

(5) COMPANY STOCK FUND - a fund consisting primarily of shares of common stock of the Sponsoring Employer and dividends and distributions attributable to said common stock, plus temporary investments held pending purchase of additional shares of common stock of the Sponsoring Employer.

(b) Each Participant shall have the right to direct the Committee to invest the cumulative balance in his Individual Account attributable to Salary Redirection, Prior Plan Salary Redirection Contributions, Prior Plan Employer Contributions and current Salary Redirection in increments of 10% (25% if elections made prior to January 1, 1997, in which case they continue until a change is made by the Participant) in the Investment Funds provided in Section 4.2(a). Such direction shall be effected as soon as practicable after the end of the month, provided the Participant gives the direction by identity-secured telephonic instructions (or in writing if telephonic instructions are impracticable) no later than the 15th day of the month. Neither the Trustee nor any other Fiduciary shall be responsible for investment losses resulting from a Participant's exercise of investment discretion, in accordance with ERISA Section 404(c).

(c) A Participant who does not make any election under this Section shall have the Individual Account attributable to Salary Redirection, Prior Plan Salary Redirection Contributions, Prior Plan Employer Contributions and current Salary Redirection made on his behalf invested in the Stable Value Fund. A Participant who began participation in the Plan prior to January 1, 1997 shall have investments formerly in the Equity Fund transferred to the Growth Fund and those formerly in the Fixed Income Fund transferred to the Stable Value Fund, subject to further redirection by the Participant in accordance with the Plan. A Participant who has funds transferred to this Plan from The Hillhaven Retirement or Deferred Savings Plan shall have assets formerly invested in the Short-Term Investment or Bond Fund transferred to the Stable Value Fund, those formerly in the U.S. Balanced Fund to the Balanced Fund, those formerly in the Large Stock or International Fund to the Growth Fund, and those formerly in the Small Stock Fund

to the Aggressive Growth Fund.

(d) All cumulative and current contributions attributable to Employer Contributions (other than contributions in a Prior Plan Employer Contribution Account) and the Profit Sharing Contribution Account shall either be made (i) in kind in Company Stock (in an amount determined based on the per-share market value on the date as of which the contribution is to be allocated) or (ii) in cash which is invested in the Company Stock Fund.

Section 4.3 VALUATION OF ACCOUNTS

(a) INDIVIDUAL ACCOUNT. As of each Valuation Date, the Committee shall determine the fair market value of the Individual Account of each Participant for each Investment Fund in which the Individual Account is invested as follows:

(1) The value of the Individual Account of each Participant as of the last Valuation Date;

(2) Minus the amount of any withdrawals and distributions made from such account since the last Valuation Date;

(3) Plus any contributions to the Participant's Salary Redirection Account since the last Valuation Date;

(4) Plus any allocation to the Participant's Matching Contribution Account since the last Valuation Date;

(5) Plus any allocation to the Participant's Profit Sharing Account since the last Valuation Date;

(6) Plus the Individual Account's proportionate share of any investment earnings allocated to each Investment Fund held within the Individual Account since the last Valuation Date;

(7) Minus the Individual Account's proportionate share of any investment losses allocated to each Investment Fund held within the Individual Account since the last Valuation Date.

(b) INVESTMENT EARNINGS OR LOSSES. The investment earnings (or losses, if such computation is negative) from the Investment Funds shall mean the difference between the unit price of any Investment Fund (other than the Company Stock Fund) from one business day to the next, and any net gain or loss on non-mutual fund investments in an Investment Fund, as reflected by interest payments, dividends, realized and unrealized gains and losses on securities, other investment transactions and expenses paid from the fund.

(c) ALLOCATION OF INVESTMENT EARNINGS OR LOSSES. Except as provided in Section 4.3(e), the investment earnings or losses from the Trust Fund shall be allocated to the Individual Account of each Participant invested in the respective Investment Fund in the ratio of "A" divided by "B" where "A" is an amount determined pursuant to Section 4.3(d) for the portion of the Individual Account of each Participant invested in the respective Investment Fund and "B" is an amount determined pursuant to Section 4.3(d) for the portion of the Individual Account of all Participants

invested in the respective Investment Fund.

(d) DETERMINATION OF RATIO. For purposes of determining the ratio is Section 4.3(c), the amounts shall be determined as follows:

(1) the value of the portion of such Individual Account(s) in the Investment Fund as of the last Valuation Date;

(2) Minus withdrawals and benefit payments to or on behalf of Participants from the portion of such Individual Account(s) in the Investment Fund since the last Valuation Date.

(e) COMPANY STOCK FUND. As of each Valuation Date with respect to the portion of a Participant's Individual Account invested in the Company Stock Fund: (i) dividends paid since the preceding Valuation Date on the number of shares of Sponsoring Employer common stock held in the Participant's Individual Account invested in the Company Stock Fund as of the preceding Valuation Date (as adjusted for any distributions or withdrawals since that date) shall be added to the portion of the Participant's Individual Account invested in the Company Stock Fund in the ratio that the number of said shares of stock held in each Participant's Individual Accounts as of the preceding Valuation Date (as adjusted for any distributions or withdrawals since that date) bears to the total number of said shares of stock held in all Participants' Individual Accounts as of the preceding Valuation Date as so adjusted; (ii) any remaining dividends and other earnings of the Company Stock Fund since the preceding Valuation Date shall be added to the Individual Accounts of each Participant in the Company Stock Fund in the ratio that the non-stock balance held in each Participant's Individual Account in the Company Stock Fund as of the preceding Valuation Date (as adjusted for any distributions or withdrawals since that date, one-half of the Matching Contributions and one-half of any Salary Redirection contributions added to such Individual Accounts in the Company Stock Fund since the preceding Valuation Date) bears to the total non-stock balance in all Participant's Individual Accounts in the Company Stock Fund as of the preceding Valuation Date as so adjusted; and (iii) the shares of Sponsoring Employer common stock acquired with cash attributable to the Company Stock Fund since the preceding Valuation Date shall be added to each Participant's Individual Account in the Company Stock Fund in the ratio that the non-stock balance held in each Participant's Individual Account in the Company Stock Fund as of the preceding Valuation Date (as adjusted for any distributions, withdrawals, Matching Contributions, Salary Redirection contributions and earnings and dividends as of the current Valuation Date) bears to the total non-stock balance of all Participant's Individual Accounts in the Company Stock Fund as so adjusted and the cost of the shares so added shall be subtracted from the non-stock portion of the Participant's Individual Account held in the Company Stock Fund.

Section 4.4 TRUSTEE AND COMMITTEE JUDGMENT CONTROLS

In determining the fair market value of the Trust Fund and of

Individual Accounts, the Trustee shall exercise its best judgment, and all such determinations of value (in the absence of bad faith) shall be binding upon all Participants and their beneficiaries.

Section 4.5 MAXIMUM ADDITIONS

Anything herein to the contrary notwithstanding, the total Annual Additions of a Participant for any Limitation Year when combined with any similar annual additions credited to the Participant for the same period from another qualified Defined Contribution Plan maintained by the Company, shall not exceed the lesser of the amounts determined pursuant to Section 4.5(a) or (b).

(a) $30,000 or, if larger, 25% of the dollar limitation in effect under Code Section 415(b)(1)(A) determined by the Commissioner of Internal Revenue as of January 1 of each year to apply to the Limitation Year ending with or within that calendar year; or

(b) 25% of the Participant's compensation received from the Company for such Limitation Year, as determined pursuant to Section 415 of the Code.

(c) In the event a Participant is covered by one or more Defined Contribution Plans maintained by the Company, the maximum annual additions as noted above shall be decreased in the last Defined Contribution Plan maintained by the Company in which he participated to ensure that all such plans will remain qualified under the Code.

Section 4.6 CORRECTIVE ADJUSTMENTS

In the event that corrective adjustments in the Annual Addition to any Participant's Individual Account are required as the result of a reasonable error in estimating a Participant's compensation, the corrective adjustments shall be made pursuant to and in the order of the subsections in this Section.

(a) The portion of the Participant's unmatched Salary Redirection made pursuant to Subsection 3.1(a) shall be returned by distribution to the Participant, with earnings thereon. Any amount so returned shall be disregarded for purposes of the tests in Sections 3.4 and 3.5.

(b) The portion of the Participant's matched Salary Redirection made pursuant to Subsection 3.1(a) and his Matching Contributions shall be proportionally reduced to insure compliance with Section 4.5. Any affected Salary Redirection will be distributed to the Participant and shall not be considered for purposes of the tests in Sections 3.4 and 3.5. Any

affected Matching Contributions shall be used to reduce future Matching Contributions.

(c) The Participant's Profit Sharing Contribution shall be reduced to insure compliance with Section 4.5. Any such amount reduced shall be allocated as of the end of the next Plan Year among the Profit Sharing Contribution Accounts of all other Participants in the same manner as is indicated in Section 3.3.

Section 4.7 DEFINED CONTRIBUTION AND DEFINED BENEFIT PLAN FRACTION

If a Participant is a participant in a Defined Benefit Plan maintained by the Company, the sum of his defined benefit plan fraction and his defined contribution plan fraction for any Limitation Year may not exceed 1.0.

(a) For purposes of this Section, the term "defined contribution plan fraction" shall mean a fraction the numerator of which is the sum of all of the Annual Additions of the Participant under this Plan and any other Defined Contribution Plan maintained by the Company as of the close of the Limitation Year and the denominator of which is the sum of the lesser of the following amounts determined for such Limitation Year and for each prior Limitation Year of employment with the Company:

(1) the product of 1.25 multiplied by the dollar limitation in effect under Section 415(c)(1)(A) of the Code; or

(2) the product of 1.4 multiplied by the amount which may be taken into account under Code Section 415(c)(1)(B) with respect to each individual under the Plan for such Limitation Year.

(b) For purposes of this Section, the term "defined benefit plan fraction" shall mean a fraction, the numerator of which is the Participant's projected annual benefit (as defined in the Defined Benefit Plan) determined as of the close of the Limitation Year and the denominator of which is the lesser of:

(1) the product of 1.25 multiplied by the dollar limitation in effect pursuant to Section 415(b)(1)(A) of the Code for such Limitation year; or

(2) the product of 1.4 multiplied by the amount which may be taken into account pursuant to Section 415(b)(1)(B) of the Code with respect to each individual under the Plan for such Limitation year.

(c) The limitation on aggregate benefits from a Defined Benefit Plan and a Defined Contribution Plan which is contained in Section 2004 of ERISA,

as amended, shall be complied with by a reduction (if necessary) in the Participant's benefits under the Defined Benefit Plan.

ARTICLE 5

DISTRIBUTIONS

Section 5.1 NORMAL RETIREMENT

When a Participant lives to his Normal Retirement Date and retires, he shall become entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date the distribution check is prepared.

Section 5.2 LATE RETIREMENT

A Participant may continue his employment past his Normal Retirement Date on a year to year basis. He shall continue to be an active Participant under the Plan. Upon his actual retirement, he shall become entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date of distribution check is prepared.

Section 5.3 DEATH

If a Participant dies while an active Participant under the Plan, his Beneficiary shall be entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date of distribution check is prepared.

Section 5.4 DISABILITY

When it is determined that a Participant is Totally and Permanently Disabled, the Committee shall certify such fact to the Trustee and such Disabled Participant shall be entitled to receive the full value of his Individual Account as soon as practicable after the distribution forms are completed, at a value determined as of the date of distribution check is prepared.

Section 5.5 TERMINATION OF EMPLOYMENT

(a) Subject to Section 5.5(l) below, upon termination of employment for any reason (other than Normal Retirement, Late Retirement, Disability Retirement or Death), a Participant shall be entitled to a benefit equal to the vested portion (as determined in this Section) of the balance of his Individual Account as soon as practicable after the distribution forms are completed, at a value determined as of the date of distribution check is prepared.

(b) A Participant shall always be 100% vested in the balance of his Salary Redirection Account, and Prior Plan Salary Redirection Account.

(c) Effective for Participants who terminate employment on or after July 1, 1990, a Participant shall be vested in the balance attributable to his Prior Plan Employer Contribution Account, Matching Contribution Account and Profit Sharing Contribution Account based on years of Service as of his date of termination, in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 1 year	0%
1 but less than 2	25%
2 but less than 3	50%
3 but less than 4	75%
4 years or more	100%

(d) Notwithstanding the above, a Participant who has a Prior Plan Employer Contribution Account from The Hillhaven

Corporation Retirement Savings Plans, shall be vested in the balance attributable to such account based on years of Service as of his date of termination, in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3 years	0%
3 but less than 4	20%
4 but less than 5	40%
5 but less than 6	60%
6 but less than 7	80%
7 years or more	100%

(e) Notwithstanding the above, a Participant who has a Prior Plan Employer Contribution Account from The Hillhaven Corporation Deferred Savings Plans, shall be vested in the balance attributable to such account based on years of Service as of his date of termination, in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3 years	0%
3 but less than 4	30%
4 but less than 5	40%
5 but less than 6	60%
6 but less than 7	80%
7 years or more	100%

(f) For purposes of calculating years of Service for purposes of vesting in the Prior Plan accounts from The Hillhaven Corporation Retirement Savings and Deferred Savings Plans as provided in subsections 5.5(d) and (e) above, in which plans elapsed time was used to determine years of Service, Participants in this Plan shall be credited with one year of Service if they remain employed by the Company, or a Company which participates in the RSP (as defined in Section 2.1(d)), until the anniversary of their employment commencement date in 1997, and shall receive another year of Service if the Participant logs 1000 Hours of Service for the Company or a company which participates in the RSP during the Plan year ending on December 31, 1997.

(g) Notwithstanding the above, a Participant who attains Normal Retirement Age or dies or becomes Totally and Permanently Disabled, while employed by the Company, shall be fully vested in his Individual Account under the Plan.

(h) A Participant who terminates employment pursuant to this Section with a zero percent vested percentage shall be deemed to have received a distribution on the date he terminates employment. If a Former Participant receives a distribution of the vested portion of his Individual Account prior to incurring five consecutive Breaks in Service or said Former Participant is zero percent vested in his Individual Account, the non-vested balance of such terminated Participant's Individual Account shall be forfeited as of the date he receives or is deemed to receive said distribution. If a Participant who has received a distribution (or deemed distribution) is later rehired before the period described in subsection 5.5(j) below, the Participant need not repay the distributed

amount, but his Account shall automatically have the forfeited amount restored to it at the earlier of (1) the last day of the Plan Year in which rehired, or (2) the date of a subsequent termination of employment. Restoration of a forfeiture will come from forfeitures in the year in which he is reemployed and, to the extent such forfeitures are not sufficient, from a special Employer Contribution. Upon a subsequent termination of employment prior the Participant becoming 100% vested, the gross distribution shall be determined by multiplying the vested percentage at the subsequent termination by the account balance then actually restored to the Plan, plus the distribution previously received. The amount to be distributed to the Participant shall be the vested percentage of the adjusted account, minus the amount previously distributed.

(i) The non-vested balance of the Individual Account of a terminated Participant shall be forfeited as of the last day of the Plan Year in which such terminated Participant incurs five consecutive Breaks in Service if the Participant is vested in any portion of his Individual Account and does not receive a distribution prior to incurring five consecutive Breaks in Service.

(j) A terminated Participant who is reemployed and again becomes a Participant after incurring five or more consecutive Breaks in Service shall not have any amount forfeited pursuant to this Section restored to his Individual Account.

(k) Any Matching Contributions and Profit Sharing Contributions forfeited will be first used to reduce Matching Contributions pursuant to Section 3.2.

(l) Notwithstanding anything to the contrary in this Section 5.5 or in Section 5.6(a), no portion of a Participant's Individual Account shall be distributed to him until the participant has separated from service within the meaning of Code Section 401(k)(2)(B), unless the distribution is in connection with an event described in Code Section 401(k)(10) and the Treasury Regulations under that Section.

Section 5.6 COMMENCEMENT OF BENEFITS

(a) Any benefits payable under this Article shall be paid as soon as reasonably possible following the actual date of severance, at the value determined as of the Valuation Date coincident with or immediately preceding receipt of properly completed distribution forms from the Participant, subject to the Participant's consent if his actual date of severance is prior to Normal Retirement Age and subject to Subsection 5.7(a). In no event, however, shall payment begin beyond 60 days after the last day of the Plan Year in which occurs the latest of (i) the Participant's reaching Normal Retirement Age; (ii) the 10th anniversary of the date the Employee became a Participant; or (iii) termination of the Participant's employment. Notwithstanding anything in the Plan to the contrary and notwithstanding the Participant's lack of consent, benefits under this Plan shall be paid as soon as reasonably possible following the later of the Participant's actual date of severance or his Normal Retirement Date.

(b) Except as required in this Section for a Participant who has an Individual Account to which Section 5.7(b) or Section 5.6(c) applies, a Participant may defer distribution to a subsequent date. If the Participant does not consent to a distribution as provided above, such distribution shall be made based on the value of the Individual Account as of the date the check for the distribution is prepared and shall be delivered as soon as reasonably practical after notice to the Committee of the election to receive a distribution.

(c) Notwithstanding any other provisions of the Plan, the payment of a Participant's benefits hereunder shall begin by payment of a lump sum of the entire Accounts of the Participant no later than the April 1 following the calendar year in which the Participant has both attained age 70 1/2 and

has retired, provided that for 5% owners as defined in Section 416 of the Code, distribution must begin by April 1 following the calendar year in which the Participant attains age 70 1/2, regardless of whether the Participant has retired; and further provided that, if the Internal Revenue Service in regulations or other pronouncements provides that eliminating the automatic distribution from this Plan beginning after age 70 1/2 for a non-5% owner who has not yet separated from service is a prohibited cut-back of benefits, then a Participant shall have the option to take a lump sum distribution even while employed, at the April 1 following attainment of age 70 1/2, if the Participant so elects in writing, and, if so elected, shall receive a distribution on or before December 31 of the year after attainment of age 70 1/2, and again each year thereafter while still employed, shall receive a similar distribution of all amounts accrued in Accounts of the Participant since the last such distribution.

(d) Notwithstanding anything in the Plan to the contrary, any benefit payable to an alternate payee pursuant to a qualified domestic relations order, as defined in Section 414(p) of the Code, shall be paid as soon as administratively possible following the determination that the order meets the requirements of Section 414(p) of the Code.

(e) Notwithstanding anything in the Plan to the contrary, in the event a Participant terminates employment for any reason and recommences employment prior to distribution of his entire vested account in the Plan, the undistributed portion of his vested account shall remain in the Plan until his account again becomes distributable due to a subsequent termination.

Section 5.7 METHODS OF PAYMENT

(a) A Participant or Beneficiary shall elect a distribution of the Individual Account in a single lump sum payment in cash as provided hereinafter. Notwithstanding the preceding sentence, a Participant may request that the Company Stock Fund be distributed in kind provided that the Participant has at least 100 shares of Sponsoring Employer common stock in his Individual Account at the date of distribution. Any non-stock balance in his Company Stock Fund will be paid in cash and fractional shares will be paid in cash based on the fair market value of such fractional shares as of the

day those shares liquidated or valued for distribution. In the event a Participant elects to receive his Company Stock Fund in cash, the shares of Sponsoring Employer stock as of the date of the distribution check is prepared will be converted to cash based on the fair market value of such shares as of such date. Except as provided in Section 5.7(c) or Section 5.11, no other manner of distribution shall be provided. The request by the Participant or the Beneficiary shall be in writing and shall be filed with the Committee. The Committee may not require a distribution

without the consent of the Participant prior to his reaching Normal Retirement Age or, if the Participant is deceased, without the consent of his spouse, if the spouse is living and if the spouse is his Beneficiary, unless the vested value of the Individual Account is $3,500 or less. If the vested value of the Participant's Individual Account is $3,500 or less, the benefits payable will be paid as soon as reasonably possible following the actual date of severance, notwithstanding lack of consent. If the vested value of the Participant's Individual Account has been more than $3,500 at the time of any distribution, the value the Participant's Individual Account will be deemed to be more than $3,500 at the time of any subsequent distribution for purposes of the consent requirements of this Section.

(b) If the Participant dies before distribution occurs, the Participant's entire interest will be distributed no later than five years after the Participant's death, except, if the designated Beneficiary is the Participant's surviving spouse, the distribution must be made no later than the date on which the Participant would have attained age 65.

(c) Notwithstanding anything in this Section to the contrary, in the case of a Participant who has a Prior Plan Salary Redirection Account or a Prior Plan Employer Contribution Account, the Participant may take distribution of his Prior Plan Salary Redirection Account or Prior Plan Employer Contribution Account at such time or in such other form as was provided in the plan (as in effect as of the date of transfer) from which the Prior Plan Salary Redirection Account or Prior Plan Employer Contribution Account was transferred.

Section 5.8 BENEFITS TO MINORS AND INCOMPETENTS

If any person entitled to receive payment under the Plan shall be a minor, the Committee, in its discretion, may dispose of such amount in any one or more of the ways specified in Subsections (a) through (c) of this Section.

(a) By payment thereof directly to such minor;

(b) By application thereof for benefit of such minor;

(c) By payment thereof to either parent of such minor or to any adult person with whom such minor may at the time be living or to any person who shall be legally qualified and shall be acting as guardian of the person or the property of such minor; provided only that the parent or adult person to whom any amount shall be paid shall have advised the Committee in writing that he will hold or use such amount for the benefit of such minor.

In the event that it shall be found that person entitled to receive payment under the Plan is physically or mentally incapable of personally receiving and giving a valid receipt for any payment due (unless prior claim therefor shall have been made by a duly qualified committee or other legal representative), such payment may be made to the spouse, son, daughter, parent, brother, sister or other person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

Section 5.9 UNCLAIMED BENEFITS

(a) The Plan does not require either the Trustee or the Committee to search for, or ascertain the whereabouts of, any Participant or Beneficiary. The Committee, by certified mail addressed to his last known address of record with the Committee or the Employer, shall notify any Participant, or Beneficiary, that he is entitled to a distribution under this Plan. If the Participant, or Beneficiary, fails to claim his distributive share or make his whereabouts known in writing to the Committee within six months from the date of mailing of the notice, or before the termination or discontinuance of this Plan, whichever should first occur, the Committee shall thereafter treat the Participant's or Beneficiary's unclaimed payable Account as a Forfeiture. A Forfeiture under this Section shall occur when the Committee determines that the Participant or Beneficiary cannot be located, but not earlier than the end of the notice period, or if later, the earliest date applicable Treasury regulations would permit the Forfeiture.

(b) If a Participant or Beneficiary who has incurred a forfeiture of his Account under this Section makes a claim, at any time, for his forfeited Account, the Committee shall restore the Participant's or Beneficiary's forfeited Account to the same dollar amount as the dollar amount of the Account forfeited, unadjusted for any gains or losses occurring subsequent to the date of the forfeiture. The Committee shall make the restoration during the Plan Year in which the Participant or Beneficiary makes the claim, first from the amount, if any, of forfeitures the Administrator otherwise would allocate for the Plan Year, then from the amount, if any, of the Trust net income or gain for the Plan Year and then from the amount, or additional amount, the Employer shall contribute to enable the Committee to make the required restoration. The Committee shall direct the Trustee to distribute the Participant's or Beneficiary's restored Account to him not later than 60 days after the close of the Plan Year in which the Committee restores the forfeited Account. The forfeiture provisions of this Section shall apply solely to the Participant's or to the Beneficiary's Account derived from Employer contributions.

Section 5.10 PARTICIPANT DIRECTED ROLLOVERS

(a) This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

(b) For purposes of this Section, an eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of 10 years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(c) For purposes of this Section, an eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

For purposes of this Section, a distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(d) A direct rollover is a payment by the plan to the eligible retirement plan specified by the distributee.

Section 5.11 JOINT AND SURVIVOR OPTIONS

(a) This Section shall only apply to a Participant who has a Prior Plan Employer Contribution Account and/or a Prior Plan Salary Redirection

Account that was transferred as a result of a plan merger from a plan that provided for an annuity form of distribution.

(b) QUALIFIED JOINT AND SURVIVOR ANNUITY. Except as otherwise provided below, unless an optional form of benefit is selected pursuant to a qualified election within the 90 day period ending on the date benefit payments would commence, a Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account will be paid in the form of a qualified joint and survivor annuity, and an unmarried Participant's benefit shall be paid in the form of a life annuity unless otherwise elected by the Participant. A qualified joint survivor annuity will not be applicable and this Section shall not apply if the following conditions are met:

(1) The Participant's vested Individual Account is payable in full, on the death of the Participant, to the

Participant's surviving spouse, or if there is no surviving spouse, or if the surviving spouse has previously consented to the designation of a non-spouse Beneficiary in the manner prescribed under this Section, and

(2) Such Participant does not elect a payment of benefits in the form of a life annuity, and

(3) With respect to such Participant, such Plan is not a direct or indirect transfer of a Plan which is described in clause (i) or (ii) of Code Section 401(a)(11)(B), or

(4) If the distribution is subject to the terms and conditions contained in Section 5.7 concerning the distribution of vested Individual Accounts of $3,500 or less.

(b) QUALIFIED PRERETIREMENT SURVIVOR ANNUITY. Except as otherwise provided in this Subsection, unless an optional form of benefit has been selected within the election period pursuant to a qualified election, if a Participant dies before benefits have commenced, then the Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account shall be applied toward the purchase of an annuity for the life of the surviving spouse. Benefits will not be required to be paid in the form of a preretirement survivor annuity if the following conditions are met:

(1) The Participant's vested Individual Account is payable in full, on the death of the Participant, to the Participant's surviving spouse, or if there is no surviving spouse, or if the surviving spouse has previously consented to the designation of a non-spouse Beneficiary in the manner prescribed under this Section, and

(2) Such Participant does not elect a payment of benefits in the form of a life annuity, and

(3) With respect to such Participant, such Plan is not a direct or indirect transfer of a Plan which is described in clause (i) or (ii) of Section 401(a)(11)(b) of the Code, and

(4) If the distribution is subject to the terms and conditions contained in Section 5.7 concerning the distribution of vested Individual Accounts of $3,500 or less.

(c) ELECTION PERIOD shall mean, for purposes of this Section, the period which begins on the first day of the Plan Year in which the Participant attains age 35 and ends on the date of the Participant's death. If a Participant separates from service prior to the first day of the Plan Year in which age 35 is attained, with respect to the Individual Account Balance as of the date of separation, the election period shall begin on the date of separation.

(d) EARLY RETIREMENT AGE shall mean, for purposes of this Section, the earliest date on which, under the Plan, the Participant could elect to receive retirement benefits.

(e) QUALIFIED ELECTION shall mean, for purposes of this Section, an election pursuant to this Subsection. A waiver of a qualified joint and survivor annuity or a qualified preretirement survivor annuity is permitted. The waiver must be in writing, must be executed by the Participant, must specify the Beneficiary and the optional form of benefit and must be consented to by the Participant's spouse. The spouse's consent to a waiver must be witnessed by a Plan representative or a notary public. Notwithstanding this consent requirement, if the Participant establishes to the satisfaction of a Plan representative that such written consent may not be obtained because there is no spouse or the spouse cannot be located, a waiver will be deemed a qualified election. Any consent necessary under this provision will be valid only with respect to the spouse who signs the consent, or in the event of a deemed qualified election, the designated spouse. Additionally a revocation of a prior waiver may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited.

(f) QUALIFIED JOINT AND SURVIVOR ANNUITY shall mean, for purposes of this Section, an annuity for the life of the Participant with a survivor annuity for the life of the spouse which is not less than 50% and not more than 100% of the amount of the annuity which is payable during the joint lives of the Participant and the spouse and which is the amount of benefit

which can be purchased with the Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account.

(g) QUALIFIED PRERETIREMENT SURVIVOR ANNUITY shall mean, for purposes of this Section, a survivor annuity for the life of the surviving spouse, the actuarial equivalent of which is not less than 50% of the vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account of the Participant as of the date of death, which may become payable as a result of the Participant's death prior to his Normal Retirement Date.

(h) NOTICE REQUIREMENTS.

(1) In the case of a qualified joint and survivor annuity the Committee shall provide each Participant no less than 30 days and no more than 90 day prior to the annuity starting date (or such other time as provided by regulations or other pronouncements), a written explanation of (i) the terms and conditions of a qualified joint and survivor annuity; (ii) the Participant's right to make and the effect of an election to waive the qualified joint and survivor annuity form of benefit; (iii) the rights of a Participant's spouse; and (iv) the right to make and the effect of a revocation of a previous election to waive the qualified joint and survivor annuity.

(2) In the case of a qualified preretirement survivor annuity the Committee shall provide each Participant within the period beginning on the first day of the Plan Year in which the Participant attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age 35, a written explanation of the qualified preretirement survivor annuity in such terms and in such manner as would be comparable to the explanation provided for

meeting the requirement of a qualified joint and survivor annuity. If a Participant enters the Plan after the first day of the Plan Year in which the Participant attained age 32, the Committee shall provide notice no later than the close of the third Plan Year succeeding the entry of the Participant in the Plan.

(3) Notwithstanding the other requirements of this Section, the respective notices prescribed by this Section need not be given to a Participant if the Plan "fully subsidizes" the costs of a qualified joint and survivor annuity or qualified preretirement survivor annuity, and the Participant cannot elect another form of benefit. For purposes of this Section, the Plan fully subsidizes the costs of a benefit if under the Plan the failure to waive such benefit by a Participant would not result in a decrease in any plan benefits with

respect to such Participant and would not result in increased contributions from the Participant.

ARTICLE 6

WITHDRAWALS

Section 6.1 HARDSHIP WITHDRAWAL

(a) Except as otherwise provided in this Section, and upon proper written application of a Participant made at least 30 days in advance of the withdrawal date, in such form as the Committee may specify, the Committee in its sole discretion may permit the Participant to withdraw a portion or all of the balance of his Salary Redirection Account and Prior Plan Salary Redirection Account, provided that earnings allocated to said account may not be withdrawn. Such withdrawal shall be based on the Valuation Date coincident with or immediately preceding the date of distribution and may not be less than $500.00, or if the amount of hardship exceeds $500.00 but the amount available for distribution is lower, the total amount available for distribution as a hardship withdrawal.

(b) The reason for a withdrawal pursuant to this Section must be to enable the Participant to meet unusual or special situations in his financial affairs resulting in immediate and heavy financial needs of the Participant. Such situations shall be limited to:

(1) uninsured medical expenses (described in Code Section 213(d)) incurred by or needed to procure services for the Participant, the Participant's spouse or any dependents of the Participant (as defined in Code Section 152);

(2) purchase (excluding mortgage payments) of a principal residence for the Participant;

(3) payment of tuition for the next 12 months of post-secondary education for the Participant, his or her spouse, children, or dependents;

(4) the need to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; or

(5) any additional items which may be added to the list of deemed immediate and heavy financial needs by the Commissioner of Internal Revenue through the publication of revenue rulings, notices, and other documents of general applicability.

Any withdrawal hereunder may not exceed the amount required to meet the immediate financial need created, and provided further that such

amount must not be reasonably available from other resources of the Participant.

(c) The Committee may shorten the notice period if it finds it is administratively feasible. In granting or refusing any request for withdrawal or in shortening the notice period, the Committee shall apply uniform standards consistently and such discretionary power shall not be applied so as to discriminate in favor of Highly Compensated Employees.

(d) The withdrawals under this Section shall in no way affect said Participant's continued participation in this Plan except by the reduction in account balances caused by such withdrawal.

(e) A Participant shall present evidence to the Committee that the requested withdrawal is not in excess of the amount necessary to relieve the financial need of the Participant and that the need can not be satisfied from other resources that are reasonably available to the Participant. The determination by the Committee that the distribution will be necessary to satisfy an immediate and heavy financial need will be made on the basis of all relevant facts and circumstances. A distribution generally will be treated as necessary to satisfy a financial need if the Committee relies, without actual knowledge to the contrary, on the Participant's representation that the need cannot be relieved:

1. through reimbursement of compensation by insurance or otherwise;

2. by reasonable liquidation of the Participant's assets, to the extent such liquidation would not itself cause an immediate and heavy financial need;

3. by cessation of Salary Redirection under the Plan; or

4. by other distributions or non-taxable loans from the plans maintained by the Employer or by any other employer, or by borrowing from commercial sources on reasonable commercial terms.

For purposes of this Subsection, the Participant's resources shall be deemed to include those of his spouse and minor children that are reasonably available to the Participant.

Section 6.2 PRIOR PLAN EMPLOYER CONTRIBUTION ACCOUNT WITHDRAWALS

Upon proper written application in such manner and in such form as the Committee may specify, a Participant shall be permitted to withdraw a portion or all of the balance of his Prior Plan Employer Contribution Account and Prior

Plan Salary Redirection Account while employed, determined as of the Valuation Date coincident with or immediately preceding the date of application but only to the extent that he would have been permitted to withdraw the funds in the account if they had not been transferred from the prior plan which was merged into this Plan.

Section 6.3 PARTICIPANT LOANS

No Participant loans are permitted under this Plan. However, to the extent that a plan that is merged into this Plan has loans outstanding, the outstanding loan balance and accrued interest may be transferred to this Plan and segregated in the Participant's Individual Account until repaid. The loan shall be repaid and subject to the terms of the loan agreement, including the provisions of the merged plan.

ARTICLE 7

FUNDING

Section 7.1 CONTRIBUTIONS

Contributions by the Employer and by the Participants as provided for in Article 3 shall be paid over to the Trustee. All contributions by the Employer shall be irrevocable, except as herein provided, and may be used only for the exclusive benefit of the Participants, Former Participants and their Beneficiaries.

Section 7.2 TRUSTEE

The Sponsoring Employer has entered into an agreement with the Trustee whereunder the Trustee will receive, invest and administer trust fund contributions made under this Plan in accordance with the Trust Agreement.

Such Trust Agreement is incorporated by reference as a part of the Plan, and the rights of all persons hereunder are subject to the terms of the Trust Agreement. The Trust Agreement specifically provides, among other things, for the investment and reinvestment of the Fund and the income thereof, the management of the Trust Fund, the responsibilities and immunities of the Trustee, removal of the Trustee and appointment of a successor, accounting by the Trustee and the disbursement of the Trust Fund.

The Trustee shall, in accordance with the terms of such Trust Agreement, accept and receive all sums of money paid to it from time to time by the Employer, and shall hold, invest, reinvest, manage and administer such moneys and the increment, increase, earnings and income thereof as a trust fund for the exclusive benefit of the Participants, Former Participants and their Beneficiaries or the payment of reasonable expenses of administering the Plan.

In the event that affiliated or subsidiary Employers become signatory hereto, completely independent records, allocations, and contributions shall be maintained for each Employer. The Trustee may invest all funds without segregating assets between or among signatory Employers.

ARTICLE 8

FIDUCIARIES

Section 8.1 GENERAL

(a) Each Fiduciary who is allocated specific duties or responsibilities under the Plan or any Fiduciary who assumes such a position with the Plan shall discharge his duties solely in the interest of the Participants, Former Participants and Beneficiaries and for the exclusive purpose of providing such benefits as stipulated herein to such Participants, Former Participants and Beneficiaries, or defraying reasonable expenses of administering the Plan. Each Fiduciary, in carrying out such duties and responsibilities, shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in exercising such authority or duties.

(b) A Fiduciary may serve in more than one Fiduciary capacity and may employ one or more persons to render advice with regard to his Fiduciary responsibilities. If the Fiduciary is serving as such without compensation, all expenses reasonably incurred by such Fiduciary shall be paid from the Trust Fund or by the Employer.

(c) A Fiduciary may allocate any of his responsibilities for the operation and administration of the Plan. In limitation of this right, a Fiduciary may not allocate any responsibilities as contained herein relating to the management or control of the Trust Fund except through the employment of an investment manager as provided in Section 8.3 of this Article and in the Trust Agreement relating to the Fund.

Section 8.2 EMPLOYER

(a) The Sponsoring Employer established and maintains the Plan for the benefit of its Employees and for Employees of Participating Employers and of necessity retains control of the operation and administration of the Plan. The Sponsoring Employer, in accordance with specific provisions of the Plan, has as herein indicated, delegated certain of these rights and obligations to the Trustee, and the Committee and these parties shall be solely responsible for these, and only these, delegated rights and obligations.

(b) The Employer shall supply such full and timely information for all matters relating to the Plan as (a) the Committee, (b) the Trustee, and (c) the accountant engaged on behalf of the Plan by the Sponsoring Employer may require for the effective discharge of their respective duties.

Section 8.3 TRUSTEE

The Trustee, in accordance with the Trust Agreement, shall be a directed Trustee with respect to Trust Fund, except that the Committee may in its discretion employ the Trustee any time and from time to time as an investment manager (as defined in Section 3(38) of ERISA) with respect to all or a designated portion of the assets comprising the Trust Fund. The committee or an investment manager so appointed shall have the exclusive authority or discretion to manage the Trust Fund.

Section 8.4 RETIREMENT COMMITTEE

(a) The Board of the Sponsoring Employer shall appoint a Committee of one or more persons to hold office at the pleasure of the Board, such committee to be known as the Retirement Committee or Committee. No compensation shall be paid members of the Committee from the Trust Fund for service on such Committee. The Committee shall choose from among its members a chairman and a secretary. Any action of the Committee shall be determined by the vote of a majority of its members. Either the chairman or the secretary may execute any certificate or written direction on behalf of the Committee.

(b) Every decision and action of the Committee shall be valid if concurrence is by a majority of the members then in office, which concurrence may be had without a formal meeting.

(c) In accordance with the provisions hereof, the Committee has been delegated certain administrative functions relating to the Plan with all powers necessary to enable it to properly carry out such duties. The Committee shall have no power in any way to modify, alter, add to or subtract from, any provisions of the Plan. The Committee shall have the power and authority in its sole, absolute and uncontrolled discretion to control and manage the operation and administration of the Plan and its investment and shall have all powers necessary to accomplish these purposes, and to make factual determinations regarding Participants and their accounts. The responsibility and authority of the Committee shall include, but shall not be limited to, (i) determining all questions relating to the eligibility of employees to participate; (ii) determining the amount and kind of benefits payable to any Participant, spouse or Beneficiary; (iii) establishing and reducing to writing and distributing to any Participant or Beneficiary a claims procedure and administering that procedure, including the processing and determination of all appeals thereunder and (iv) interpreting the provisions of the Plan including the publication of rules for the regulation of the Plan as in its sole, absolute and uncontrolled discretion are deemed necessary or advisable and which are not inconsistent with the express terms hereto the Code or ERISA, as

amended. All disbursements by the Trustee, except for the ordinary expenses of administration of the Trust Fund or the reimbursement of reasonable expenses at the direction of the Sponsoring Employer, as provided herein, shall be made upon, and in accordance with, the written directions of the Committee. When the Committee is required in the performance of its duties hereunder to administer or construe, or to reach a determination, under any of the provisions of the Plan, it shall do so on a uniform, equitable and nondiscriminatory basis.

(d) The Committee shall establish rules and procedures to be followed by the Participants, Former Participants and Beneficiaries in filing applications for benefits and for furnishing and verifying proofs necessary to establish age, Service, and any other matters required in order to establish their rights to benefits in accordance with the Plan. Additionally, the Committee shall establish accounting procedures for the purpose of making all allocations, valuations and adjustments to Participants' accounts. Should the Committee determine that the strict application of its accounting procedures will not result in an equitable and nondiscriminatory allocation among the accounts of Participants, it may modify its procedures for the purpose of achieving an equitable and non-discriminatory allocation in

accordance with the general concepts of the Plan, provided however that such adjustments to achieve equity shall not reduce the vested portion of a Participant's interest.

(e) The Committee may employ such counsel, accountants, and other agents as it shall deem advisable. The Sponsoring Employer shall pay, or cause to be paid from the Trust Fund, the compensation of such counsel, accountants, and other agents and any other expenses incurred by the Committee in the administration of the Plan and Trust.

Section 8.5 CLAIMS PROCEDURES

The Committee has delegated to the Human Resources Department (the "Claims Coordinator") the processing of all applications for benefits. Upon receipt by the Claims Coordinator of such an application, it shall determine all facts which are necessary to establish the right of an applicant to benefits under the provisions of the Plan and the amount thereof as herein provided. Upon request, the Claims Coordinator will afford the applicant the right of a hearing with respect to any finding of fact or determination. The applicant shall be notified in writing of any adverse decision with respect to his claim within 90 days after its submission. The notice shall be written in a manner calculated to be understood by the applicant and shall include the items specified in Section 8.5(a) through (d).

(a) The specific reason or reasons for the denial;

(b) Specific references to the pertinent Plan provisions on which the denial is based;

(c) A description of any additional material or information necessary for the applicant to perfect the claim and an explanation why such material or information is necessary; and

(d) An explanation of the Plan's claim review procedures.

(e) If special circumstances require an extension of time for processing the initial claim, a written notice of the extension and the reason therefor shall be furnished to the claimant before the end of the initial 90 day period. In no event shall such extension exceed 90 days.

(f) In the event a claim for benefits is denied or if the applicant has had no response to such claim within 90 days of its submission (in which case the claim for benefits shall be deemed to have been denied), the applicant or his duly authorized representative, at the applicant's sole expense, may appeal the denial to the Committee within 60 days of the receipt of written notice of denial or 60 days from the date such claim is deemed to be denied. In pursuing such appeal the applicant or his duly authorized representative:

(1) May request in writing that the Committee review the denial;

(2) May review pertinent documents; and

(3) May submit issues and comments in writing.

(g) The decision on review shall be made within 60 days of receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later

than 120 days after receipt of a request for review. If such an extension of time is required, written notice of the extension shall be furnished to the claimant before the end of the original 60 day period. The decision on review shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of the Plan on which such denial is based. If the decision on review is not furnished within the time specified above, the claim shall be deemed denied on review.

Section 8.6 RECORDS

All acts and determinations of the Claims Coordinator or the Committee shall be duly recorded by the Claims Coordinator or the secretary of the Committee thereof and all such records together with such other documents as may be

necessary in exercising their duties under the Plan shall be preserved in the custody of such secretary. Such records and documents shall at all times be open for inspection and for the purpose of making copies by any person designated by the Sponsoring Employer. The Committee shall provide such timely information, resulting from the application of its responsibilities under the Plan, as needed by the Trustee and the accountant engaged on behalf of the Plan by the Sponsoring Employer, for the effective discharge of their respective duties.

ARTICLE 9

AMENDMENT AND TERMINATION OF THE PLAN

Section 9.1 AMENDMENT OF THE PLAN

The Sponsoring Employer shall have the right at any time by action of the Board to modify, alter or amend the Plan in whole or in part; provided, however, that the duties, powers and liability of the Trustee hereunder shall not be increased without its written consent; and provided, further, that the amount of benefits which, at the time of any such modification, alteration or amendment, shall have accrued for any Participant, Former Participant or Beneficiary hereunder shall not be adversely affected thereby; and provided, further, that no such amendments shall have the effect of reverting to the Employer any part of the principal or income of the Trust Fund. No amendment to the Plan shall decrease the balance of a Participant's Individual Account or eliminate an optional form of distribution.

Section 9.2 TERMINATION OF THE PLAN

The Sponsoring Employer expects to continue the Plan indefinitely, but continuance is not assumed as a contractual obligation and the Sponsoring Employer reserves the right at any time by action of the Board to terminate its participation in the Plan. If the Sponsoring Employer terminates or partially terminates its participation in the Plan or permanently discontinues its Contributions at any time, each Participant affected thereby shall be then vested with the amount allocated to his Individual Account.

In the event of termination or partial termination of the Plan by the Sponsoring Employer, the Committee shall value the Trust Fund

as of the date of termination. That portion of the Trust Fund for which the Plan has not been terminated shall be unaffected.

Section 9.3 RETURN OF CONTRIBUTIONS

It is intended that this Plan shall be approved and qualified under the Code and Regulations issued thereunder with respect to Employees' Plans and Trusts (1) so as to permit the Employers to deduct for federal income tax purposes the amounts of contributions to the Trust; (2) so that contributions so made and the income of the Trust Fund will not be taxable to Participants as income until received; (3) so that the income of the Trust Fund shall be exempt from federal income tax. In the event the Commissioner of Internal Revenue or his delegate rules that the deduction for all or a part of any Employer Contribution (or Salary Redirection) is not allowed, the Employers reserve the right to recover that portion or all of their contributions for which no deduction is allowed, provided such recovery is made within one year of the disallowance.

ARTICLE 10

MISCELLANEOUS

Section 10.1 GOVERNING LAW

The Plan shall be construed, regulated and administered according to the laws of the Commonwealth of Kentucky, except in those areas preempted by the laws of the United States of America.

Section 10.2 CONSTRUCTION

The headings and subheadings in the Plan have been inserted for convenience of reference only and shall not affect the construction of the provisions hereof. In any necessary construction the masculine shall include the feminine and the singular the plural, and vice versa.

Section 10.3 ADMINISTRATION EXPENSES

The expenses of administering the Trust Fund and the Plan shall be paid from the Trust Fund, unless they are paid by the Employer.

Section 10.4 PARTICIPANT'S RIGHTS

No Participant in the Plan shall acquire any right to be retained in the Employer's employ by virtue of the Plan, nor, upon his dismissal, or upon his voluntary termination of employment, shall he have any right or interest in and to the Trust Fund other than as specifically provided herein. The Employer shall not be liable for the payment of any benefit provided for herein; all benefits hereunder shall be payable only from the Trust Fund.

Section 10.5 NONASSIGNABILITY

(a) The benefit or interest under the Plan and Trust of any person shall not be assignable or alienable by that person and shall not be subject to alienation by operation of law or legal process. The preceding sentence shall apply to the creation, assignment or recognition of any right to any benefit pay able with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code. A domestic relations order entered before January 1, 1985, shall be treated as a qualified domestic relations order

if payment of benefits pursuant to the order has commenced as of such date, and may be treated as a qualified domestic relations order if payment of benefits is not commenced as of such date, even though the order does not satisfy the requirements of Section 414(p) of the Code.

(b) This Plan specifically permits a distribution to an alternate payee under a qualified domestic relations order at any time, irrespective of whether the Participant has attained his earliest retirement age (as defined under Code Section 414(p)) under the Plan. A distribution to an alternate payee prior to the Participant's attainment of earliest retirement age is available only if: (a) the order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; and (b) if the present value of the alternate payee's benefits under the Plan exceeds $3,500, and the order requires, the alternate payee consents to any distribution occurring prior to the Participant's attainment of earliest retirement age. Nothing in this Section 10.5 gives a Participant a right to receive distribution at a time otherwise not permitted under the Plan nor does it permit the alternate payee to receive a form of payment not permitted under the Plan.

Section 10.6 MERGER, CONSOLIDATION OR TRANSFER

In the event of the merger or consolidation of the Plan with another plan or transfer of assets or liabilities from the Plan to another plan, each then Participant, Former Participant or Beneficiary shall not, as a result of such event, be entitled on the day following such merger, consolidation or transfer under the termination of the Plan provisions to a lesser benefit than the benefit he was entitled to on the date prior to the merger, consolidation or transfer if the Plan had then terminated.

Section 10.7 COUNTERPARTS

The Plan and the Trust Agreement may be executed in any number of counterparts, each of which shall constitute but one and the same instrument and may be sufficiently evidenced by any one counterpart.

Section 10.8 ADMINISTRATIVE MISTAKE

If the Committee discovers that a mistake has been made in crediting Salary Redirection Contributions or Employer Contributions, withholding Salary Redirection Contributions from a Participant's compensation, or crediting earnings to the account of any Participant, the Committee shall take any administrative action which it deems necessary or appropriate to remedy the mistake in question, and may request the Employer to make a special contribution to the account of the Participant where appropriate. If the Committee discovers that a mistake has been made in calculating the amount of any excess Salary Redirection or other contribution under Sections 3.4, 3.5 or 4.6, or earnings on such excess amount, which amount is required to be distributed to a Participant, the Committee shall take such administrative action as it deems necessary or appropriate to remedy the mistake in question.

ARTICLE 11

TOP HEAVY PLAN PROVISIONS

Section 11.1 GENERAL

Notwithstanding anything in the Plan to the contrary, if this Plan when combined with all other plans required to be aggregated pursuant to Code Section 416(g) is deemed to be a top-heavy plan for any Plan Year, the provisions of this Article shall apply to such Plan Year.

Section 11.2 MINIMUM CONTRIBUTION

Regardless of hours worked, each active Participant who is not a Key Employee shall be entitled to a minimum allocation of contributions and forfeitures equal to the lesser of (i) three percent (3%) of the Participant's Compensation for the Plan Year; and (ii) provided that the Plan is not part of a Required Aggregation Group with a Defined Benefit Plan because the Plan enables the Defined Benefit Plan to meet the requirements of Code Section 401(a)(4) or 410, the highest percentage of Compensation contributed on behalf of, plus forfeitures allocated to, a Key Employee. In the case of a Participant who is also a participant in a defined benefit plan maintained by the Employer, the minimum accrued benefit provided in the defined benefit plan pursuant to Code Section 416(c)(1) equal to two percent of the Participant's average monthly compensation for the five consecutive years when his aggregate compensation was highest multiplied by his years of credited service up to ten years for each plan year in which the Plan is top heavy, shall be the only minimum benefit for both that plan and this Plan, and the minimum allocation described above shall not apply.

Section 11.3 SUPER TOP HEAVY PLAN

The multiplier of 1.25 in Section 4.7 shall be reduced to 1.0 unless (i) all plans of the Required Aggregation Group or the Permissive Aggregation Group, when aggregated, are 90% or less top heavy, and (ii) the minimum accrued benefit referenced in clause (i) of Section 11.2 is modified by substituting three percent with four percent. In the case of each Participant who is also a participant in a defined benefit plan maintained by the Employer, the minimum accrued benefit provided in the defined benefit plan pursuant to Code Sections 416(c)(1) and 416(h) equal to three percent of the Participant's average monthly compensation for the five highest consecutive years when his aggregate compensation was highest multiplied by his years of credited service up to ten years for each plan year in which the Plan is top heavy shall be the only minimum benefit for both that plan and this Plan, and the minimum allocation described above shall not apply.

Section 11.4 MINIMUM VESTING

In the event that the regular vesting schedule in Article 5 is less liberal than the vesting schedule hereinafter provided, then such vesting schedule shall be substituted with the following to the extent that the following schedule is more favorable:

Years of Service	Vested Percentage
Less than 2 years	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%

6 years or more	100%

Should the Plan cease to be a Top Heavy Plan, the regular vesting schedule in Article 5 shall be put back into effect. However, the vested percentage of any Participant cannot be decreased as a result of the return to the prior vesting schedule and any Participant with three or more years of Service may elect within the later of: (1) 60 days after the Plan ceases to be a Top Heavy Plan or (2) 60 days after the date the Participant is issued written notification of the change in the vesting schedules, to remain under the special vesting rules described in this Section.

Section 11.5 COMPENSATION

For purposes of this Article, compensation shall have the same meaning as assigned to it by Code Section 415 and shall be limited to such amount as required by Code Section 401(a)(17).

ARTICLE 12

PROVISIONS RELATED TO EMPLOYERS INCLUDED IN THE PLAN

Section 12.1 GENERAL. Any Employer that, with the Committee's consent, adopts this Plan and becomes a party to the Trust Agreement shall be a "Participating Employer." Participating Employers as of January 1, 1997 are listed on Appendix B to the Plan, and any Participating Employers added in the future shall be so listed as soon as reasonably practicable after the Committee consents to their adoption of this Plan. Each Participating Employer shall be subject to the terms and conditions of this Plan as in effect at the effective date of adoption by the Participating Employer and as subsequently amended from time to time by the Vencor, Inc. (For purposes of this section, the "Sponsoring Employer"), subject to such modifications as are set forth in the document evidencing the Participating Employer's adoption of the Plan. Unless the context of the Plan clearly indicates to the contrary, the terms "Company" and "Employer" shall be deemed to include each Participating Employer as relates to its adoption of the Plan. When an entity ceases to be an "Employer" because it is no longer part of the Company, the entity shall cease to be a Participating Employer. Section 12.4 shall not apply to such cessation.

Section 12.2 SINGLE PLAN. This Plan shall be deemed to be a single plan of all Employers that have adopted this Plan. Employer contributions shall not be accounted for separately, and all Plan assets shall be available to pay benefits to all Participants and their Beneficiaries. Employees may be transferred among Participating Employer or employed simultaneously by more than one Participating Employer, and no such transfer or simultaneous employment shall effect a termination of employment, be deemed retirement or be the cause of a Forfeiture or a loss of years of Service under this Plan. For purposes of determining years of Service and the payment of benefits upon death or other termination of employment, all Participating Employers shall be deemed one Employer. Any Participant employed by a Participating Employer during a Plan Year who receives any Compensation from a Participating Employer during that Plan Year shall receive an allocation of any Employer Contributions and Forfeitures for the Plan Year in accordance with Article 3 based on his Compensation during that Plan Year.

Section 12.3 SPONSORING EMPLOYER AS AGENT. Each Participating Employer shall be deemed to have designated irrevocably the Sponsoring Employer as its sole agent (1) for all purposes under Section 8 (including fixing the number of members of, and the appointment and removal

of, the Committee); (2) with respect to all its relations with the Trustee (including the Trustee's appointment and removal, and fixing the number of Trustees); and (3) for the purpose of amending this Plan. The Committee shall make any and all rules and regulations which it shall deem necessary or appropriate to effectuate the purpose of this Article 12, and such rules and regulations shall be binding upon the Sponsoring Employer, the Participating Employers, the Participants and Beneficiaries.

Section 12.4 WITHDRAWAL OF EMPLOYER. Any Participating Employer may withdraw its participation in the Plan by giving written notice to the Administrator stating that it has adopted a separate plan. The notice shall be given at least six months prior to a designated Valuation Date, unless the Committee shall accept a shorter period of notification. Upon request of the withdrawing Participating Employer, the Committee may, but shall not be obligated to, instruct the Trustee to transfer the withdrawing Participating Employer's interest in the Fund to the Participating Employer's separate plan in accordance with the following rules: Promptly after the Valuation Date as of which the transfer is to occur, the Committee, shall establish the withdrawing Participating Employer's interest in the Trust Fund, after a reduction for fees and other expenses related to the Participating Employer's withdrawal. The Trustee shall then, in accordance with the Committee's instructions, transfer the withdrawing Participating Employer's interest in the Fund to the trustee or other funding agent of the Participating Employer's separate plan. Neither the Trustee nor the Committee shall be obligated to transfer or direct the transfer of assets under this Article until they are satisfied as to all matters pertain ing to the transfer, including, but not limited to, the tax qualification of the plan into which the transfer will be made. The Committee and the Trustee may rely fully on the representations and instructions of the withdrawing Participating Employer and shall be fully protected and discharged with respect to any transfer made in accordance with such representations or instructions. Any transfer of assets in accordance with this Article shall constitute a complete discharge of responsibility of the Sponsoring Employer, the remaining Participating Employer, their Boards of Directors and officers, and the Trustee without any responsibility on their part collectively or individually to see to the application thereof. The Committee in its sole discretion shall have the right to transfer the withdrawing Participating Employer's interest in the Fund to the new plan in the form of installments, in cash, or in cash and kind and over a period of time not to exceed one year following the designated Valuation Date as of which the transfer is to occur. Any assets which are invested in accordance with an investment contract or agreement which by its terms precludes the realization upon and distribution of such assets for a stated period of time shall continue to be held by the Trustee under the terms and conditions of this Plan until the expiration of such period, sub ject to the Committee's instructions. The Committee may in its sole discretion direct the Trustee to segregate the Accounts of all affected Participants into a separate fund to facilitate transfer, and the Administrator may in its sole discretion direct the Trustee to invest the separate fund only in cash equivalent investments.

Section 12.5 TERMINATION OF PARTICIPATION. The Board of Directors of a Participating Employer may at any time terminate this Plan with respect to its Employees by adopting a resolution to that effect and delivering a certified copy to the Committee. Section 9.2 shall not apply to vest the Individual Accounts of a Participating Company's Employees upon such termination (unless the termination results in a partial termination of the entire Plan), and the

continuation of the Plan by the Sponsoring Employer and other Participating Employers shall not be

affected. The termination of the Plan with respect to a Participating Employer's Employees shall not effect a termination with respect to an Employee of the Sponsoring Employer or another Participating Employer if such Employee was not employed by the terminating Participating Employer on the effective date of the termination, even though he may have been employed by the terminating Participating Employer at an earlier date, and shall not entitle a Participant to a distribution until an actual separation from service with the meaning prescribed under Code Section 401(k)(2)(B) has occurred, unless the distribution follows an event in Code Section 401(k)(10) and the Treasury Regulations thereunder. Any fees and other expenses related to a Participating Employer's termination shall be charged against the Accounts of the affected Participants, if not paid by the terminating Participating Employer.

SIGNATURES

IN WITNESS WHEREOF, THE SPONSORING EMPLOYER HAS CAUSED THIS PLAN TO BE EXECUTED THIS 31 DAY OF DECEMBER, 1997, BUT EFFECTIVE JANUARY 1, 1997.

VENCOR, INC.

BY /s/ Cecelia A. Hagan

TITLE: Vice-President of Human Resources

APPENDIX "A"

PAST SERVICE PURSUANT TO SECTION 1.44(c)
(FOR COMPANIES ACQUIRED BUT PLANS NOT MERGED)

Location	Date of Acquisition
Vencor Dallas	2/27/89
Vencor Ft. Lauderdale	12/20/89
Vencor Sycamore	10/10/86
Vencor LaGrange	9/4/85
Vencor So. Texas	9/9/88
Vencor Tampa	10/19/88
Vencor So. Louisiana	8/30/88

Nationwide Care, Inc.--Service for all periods from date of hire with this company Any company for which past service was granted for purposes of the Hillhaven Retirement or Deferred Savings Plan, as determined by that plan as in effect prior to January 1, 1997

* * * * * *

APPENDIX "B"

PARTICIPATING EMPLOYERS
AS OF JANUARY 1, 1997

Advanced Infusion Systems, Inc.
Brim of Massachusetts, Inc.
BORA Acquisition, Inc.
Cornerstone Insurance Company
First Healthcare Corporation
First Rehab, Inc.
Hahnemann Hospital, Inc.
Healthcare Rehabilitation Inc.
Hillhaven Home Care, Inc.
Hillhaven of Central Florida, Inc.
and the partnership which it and First Healthcare own
100% Carrollwood Care Center
LV Acquisition Corp.
Meadowvale Skilled Care Center, Inc.
Medisave of Florida, Inc.
Medisave of Tennessee, Inc.
Nationwide Care, Inc.
and the partnerships which it and First Healthcare own 100% -
Hillhaven/Indiana Partnership, New Pond Village Associates, St. George
Nursing Home Limited Partnership and Stickton Healthcare Center, Ltd.
NFM, Inc.
Northwest Health Care, Inc.
Pasatiempo Development Corp.
Peach Acquisition Corp.
Twenty-Nine Hundred Corporation
VCI Specialty Services, Inc.
Vencare Hospice, Inc.
Vencare, Inc.
Vencor Home Health Services, Inc.
Vencor Hospitals of California, Inc.
Vencor Hospitals East, Inc.
Vencor Hospitals Illinois, Inc.
Vencor Hospitals South, Inc.
Vencor Investments, Inc.
Vencor Kentucky, Inc.
Vencor Properties, Inc.
and the partnership which it and VCI Specialty Services, Inc.
own 100% - Vencor Hospitals Texas, Ltd.
Vencor, Inc.
Ventech Systems, Inc.

EXHIBIT 10.3

AMENDMENT NO. 1 TO THE VENCOR RETIREMENT SAVINGS PLAN

This is Amendment No. 1 ("Amendment") to the Vencor Retirement Savings Plan ("Plan") as amended and restated as of January 1, 1997 ("Plan").

RECITALS

A. For various business organization purposes, two subsidiaries (and all of those companies' first and second tier subsidiaries) of TheraTx, Inc., a new subsidiary of Vencor, Inc., will be moved to the Vencor, Inc. payroll system before other subsidiaries in the TheraTx group.

B. When these companies are added to the Vencor, Inc. payroll system, it will be impracticable to continue 401(k) plan deferrals to the existing TheraTx 401(k) Plan ("TheraTx Plan") in which those companies currently participate, and the companies do not desire to have a long gap in retirement plan participation for their employees.

C. The TheraTx Plan allows immediate participation of new hires who are over the age of 21, while the Plan requires a 12 month waiting period before participation.

D. It is anticipated that the TheraTx Plan will eventually be merged with the Plan, in which event the Plan would require counting of past service with employers participating in the TheraTx Plan for purposes of vesting in the Plan.

AMENDMENTS

1. This Amendment shall be effective July 1, 1997.

2. All capitalized terms used in this Amendment and not otherwise defined shall have the meanings given in the Plan.

3. Section 2.1 is hereby amended by adding new paragraphs (e), (f) and (g) to the end thereof to read in their entirety as follows:

(e) If on or before July 1, 1997, the Board of Directors of Respiratory Care Services, Inc. ("RCS") and PersonaCare, Inc., and all of its first and second tier subsidiaries ("PersonaCare"), shall have adopted a resolution to become a participating employer in this Plan, notwithstanding the provisions of Section 2.3(d), all Non-Highly Compensated RCS Employees as of May 1, 1997 and all Non-Highly Compensated PersonaCare Employees as of July 1, 1997, who, in each case is age 21 or older, shall be eligible to participate in this Plan as of July 1, 1997.

(f) All Highly Compensated Employees of RCS and PersonaCare who meet the age and service requirements of Section 2.1(a) of this Plan as of July 1, 1997 (counting service with RCS and PersonaCare) shall be eligible to participate as of July 1, 1997, or, if later, the Entry Date coinciding with

or next following the date they meet those age and service requirements.

(g) Any person hired by RCS after April 30, 1997, or by PersonaCare after June 30, 1997, shall be eligible to participate in accordance with Section 2.1(a).

4. Appendix "A" to the Plan is hereby amended to add to the end of the

Appendix all of the companies listed on Annex A of this Amendment, so that past service with these companies shall be counted for purposes of vesting Service under the Plan.

5. Section 9.1 of the Plan is hereby amended so that as amended it shall read in its entirety as follows:

Section 9.1 AMENDMENT OF THE PLAN

The Sponsoring Employer shall have the right at any time by action of the Board (or, in the case of amendments to the eligibility, vesting and service-counting provisions of the Plan with respect to Participating Employers, the Board or the Committee) to modify, alter or amend the Plan in whole or in part; provided, however, that the duties, powers and liability of the Trustee hereunder shall not be increased without its written consent; and provided, further, that the amount of benefits which, at the time of any such modification, alteration or amendment, shall have accrued for any Participant, Former Participant or Beneficiary hereunder shall not be adversely affected thereby; and provided, further, that no such amendments shall have the effect of reverting to the Employer any part of the principal or income of the Trust Fund. No amendment to the Plan shall decrease the balance of a Participant's Individual Account or eliminate an optional form of distribution.

6. Section 2.3(d) of the Plan is hereby amended so that as amended it shall read in its entirety as follows:

(d) If an Employee transfers employment from a non-adopting employer which is a part of the Company or which participates in the RSP (as defined in Section 2.1(d)) to the Employer (for purposes of this Section, an "Affiliate"), the Employee shall become a Participant under this Plan as of the date of transfer of employment to the Employer, provided he has been employed by the Affiliate, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), calculated from his original date of hire with the Affiliate. If the Employee who transfers employment from an Affiliate to the Employer has not been employed, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), he shall become a Participant under this Plan upon meeting the eligibility requirements of Section 2.1(a) or (b), counting all past Service with the Affiliate for that purpose. Notwithstanding the preceding

sentences, if an Employee other than a Highly Compensated Employee was eligible to participate in TheraTx, Incorporated 401(k) Plan prior to transferring to the Employer, the Employee shall be eligible to participate in this Plan immediately upon such transfer.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this Amendment No. 1 to be executed this the 31st day of December, 1997, but effective as of July 1, 1997.

VENCOR, INC.

By /s/ Cecelia A. Hagan

Title Vice President of Human Resources

ANNEX A

Respiratory Care Services, Inc.
PersonaCare, Inc.
PersonaCare of San Antonio, Inc.
PersonaCare of Wisconsin, Inc.
PersonaCare of Huntsville, Inc.
PersonaCare of Pompano West, Inc.
PersonaCare of Rhode Island, Inc.
PersonaCare of San Pedro, Inc.
Tucker Nursing Center, Inc.
PersonaCare of Pennsylvania, Inc.
PersonaCare of Owensboro, Inc.
PersonaCare of Georgia, Inc.
PersonaCare of Connecticut, Inc.
Stamford Health Facilities, Inc.
Homestead Health Center, Inc.
Courtland Gardens Residence, Inc.
Courtland Gardens Health Care Center, Inc.
PersonaCare of Shreveport, Inc.
PersonaCare of Bradenton, Inc.
PersonaCare of Reading, Inc.
PersonaCare of Warner Robbins, Inc.
Lafayette Health Care Center, Inc.
PersonaCare of St. Petersburg, Inc.
PersonaCare of Clearwater, Inc.
PersonaCare of Pompano East, Inc.
PersonaCare of Ohio, Inc.
PersonaCare Living Center of Clearwater, Inc.
THTX, Inc.
Health Care Holdings, Inc.
Health Care Technology, Inc.
NFM, Inc.
PersonaCare Properties, Inc.

EXHIBIT 10.4

AMENDMENT NO. 2 TO THE VENCOR RETIREMENT SAVINGS PLAN

This is Amendment No. 2 ("Amendment") to the Vencor Retirement Savings Plan ("Plan") as amended and restated as of January 1, 1997 ("Plan").

RECITALS

A. For various business organization purposes, TheraTx, Inc., a subsidiary of Vencor, Inc., and all of the subsidiaries of TheraTx, Inc. (and all of those companies' first and second tier subsidiaries), except Respiratory Care Services, Inc., and PersonaCare, Inc. (and all its subsidiaries), will be moved to the Vencor, Inc. payroll system.

B. When these companies are added to the Vencor, Inc. payroll system, it will be impracticable to continue 401(k) plan deferrals to the existing TheraTx 401(k) Plan ("TheraTx Plan") in which those companies currently participate, and the companies do not desire to have a long gap in retirement plan participation for their employees.

C. The TheraTx Plan allows immediate participation of new hires who are over the age of 21, while the Plan requires a 12 month waiting period before participation.

D. It is anticipated that the TheraTx Plan will eventually be merged with the Plan, in which event the Plan would require counting of past service with employers participating in the TheraTx Plan for purposes of vesting in the Plan.

AMENDMENTS

1. This Amendment shall be effective January 1, 1998.

2. All capitalized terms used in this Amendment and not otherwise defined shall have the meanings given in the Plan.

3. Section 2.1 is hereby amended by adding new paragraphs (h), (i) and (j) to the end thereof to read in their entirety as follows:

(h) If on or before January 1, 1998, the Board of Directors of TheraTx, Inc. and all its subsidiaries, including first and second tier subsidiaries, other than RCS and PersonaCare (and its subsidiaries), ("TheraTx and its Subsidiaries") shall have adopted a resolution to become a participating employer in this Plan, notwithstanding the provisions of Section 2.3(d), all Non-Highly Compensated Employees of TheraTx and its Subsidiaries who are age 21 or older shall be eligible to participate in this Plan as of January 1, 1998.

(i) All Highly Compensated Employees of TheraTx and its Subsidiaries who meet the age and service requirements of Section 2.1(a) of this Plan as of January 1, 1998 (counting their service with TheraTx and its Subsidiaries)

shall be eligible to participate as of January 1, 1998, or, if later, the Entry Date coinciding with or next following the date they meet those age and service requirements.

(j) Any person hired by TheraTx or its Subsidiaries after December 31, 1997, shall be eligible to participate in accordance with Section 2.1(a).

4. Appendix "A" to the Plan is hereby amended to add to the end of the Appendix all of the companies listed on Annex A of this Amendment, so that past service with these companies shall be counted for purposes of vesting Service under the Plan.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this Amendment No. 2 to be executed this the 31st day of December, 1997, but effective as of January 1, 1998.

VENCOR, INC.

By /s/ Cecelia A. Hagan

Title Vice President of Human Resources

ANNEX A

TheraTx, Inc.
TheraTx Medical Supplies, Inc.
TheraTx Staffing, Inc.
TheraTx Management Services, Inc.
TheraTx Health Services, Inc.
TheraTx Rehabilitation Services, Inc.
TheraTx Healthcare Management, Inc.
WorkNet, Inc.
HORA Acquisition, Inc.
Horizon Healthcare Services, Inc.
Tunstall Enterprises, Inc.

EXHIBIT 10.5

AMENDMENT NO. 3 TO THE VENCOR RETIREMENT SAVINGS PLAN

This is Amendment No. 3 to the Vencor Retirement Savings Plan (the "VRSP") as amended and restated as of January 1, 1997.

RECITALS

A. For various business organization purposes, Community Psychiatric Centers, Inc. ("CPC"), a subsidiary of Vencor, Inc. ("Vencor"), and most of CPC's first and second tier subsidiaries (collectively, the "CPC Companies"), will be moved to the Vencor payroll system effective January 1, 1998.

B. When the CPC Companies are added to the Vencor payroll system, it will be impracticable to continue 401(k) plan deferrals to the existing THC Employees' Profit Sharing Plan (the "THC Plan") in which the CPC Companies currently participate, and the CPC Companies do not desire to have a long gap in retirement plan participation for their employees.

C. It is anticipated that the THC Plan will eventually be merged with the VRSP, in which event the VRSP would require counting of past service with employers participating in the THC Plan for purposes of vesting in the VRSP, and Vencor wishes to credit employees of the CPC Companies who are employed on January 1, 1998 with past service with employers participating in the THC Plan for purposes of vesting in the VRSP.

AMENDMENTS

1. This Amendment shall be effective January 1, 1998.

2. All capitalized terms used in this Amendment and not otherwise defined shall have the meanings given in the Plan.

3. Appendix "A" to the Plan is hereby amended to add to the end of the Appendix all of the companies listed on Annex A of this Amendment, so that past service with these companies shall be counted for purposes of vesting Service under the Plan.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this Amendment No. 3 to be executed this the 31st day of December, 1997, but effective as of January 1, 1998.

VENCOR, INC.

By /s/ Cecelia A. Hagan

Title Vice President of Human Resources

ANNEX A

Community Psychiatric Centers
Community Psychiatric Centers of Indiana, Inc.
Community Psychiatric Centers of Kansas, Inc.
Community Psychiatric Centers of Mississippi, Inc.
Community Psychiatric Centers of Arkansas, Inc.

Community Psychiatric Centers of Florida, Inc.
Community Psychiatric Centers of Idaho, Inc.
Community Psychiatric Centers of Missouri, Inc.
Community Psychiatric Centers of North Carolina, Inc.
Community Psychiatric Centers of Oklahoma, Inc.
Community Psychiatric Centers of Oregon, Inc.
Community Psychiatric Centers of Texas, Inc.
Cottonwood Hill, Inc.
Old Orchard Hospital, Inc.
Peachtree-Parkwood Hospital, Inc.
Community Psychiatric Centers of Utah, Inc.
Community Psychiatric Centers of Wisconsin, Inc.
C.P.C. of Louisiana, Inc.
Community Residential Centers of San Antonio, Inc.
CPC Properties of Oklahoma, Inc.
CPC Properties of Texas, Inc.
CPC Properties of Utah, Inc.
CPC Properties of Arkansas, Inc.
CPC Properties of Illinois, Inc.
CPC Properties of Kansas, Inc.
Florida Hospital Properties
CPC Properties of Louisiana, Inc.
CPC of Georgia, Inc.
CPC Properties of Mississippi, Inc.
CPC Properties of Indiana, Inc.
CPC Properties of Missouri, Inc.
CPC Properties of Wisconsin, Inc.
CPC Properties of N. Carolina, Inc.
Community Psychiatric Centers of California
Community Psychiatric Centers Properties Incorporated
CPC Investment Corporation
Transitional Hospitals Corporation
THC Chicago, Inc.
THC Orange County, Inc.
THC of Massachusetts, Inc.
THC of Florida, Inc.

THC Hollywood, Inc.
THC San Diego, Inc.
J.B. King Hospital, Inc.
THC Houston, Inc.
THC Seattle, Inc.
THC of Nevada, Inc.
THC Minneapolis, Inc.
THC St. Petersburg, Inc.
THC of New Mexico, Inc.
THC of Wisconsin, Inc.
THC of Indiana, Inc.
THC of Tampa, Inc.
THC North Shore, Inc.
THC of Louisiana, Inc.
THC of Texas, Inc.
Belmedco
CPC Managed Care Health Services, Inc.
Community Behavioral Health System, Inc.
CPC Pharmacy, Inc.
CPC Laboratories, Inc.
Miami Valley Community Centers, Inc.
Solutions Counseling and Treatment Centers, Inc.
P.P.P, Inc.
Transitional Family Services of Georgia, Inc.
Atlantic Psychiatric Centers, Inc.
Interamericana Health Care Group, Inc.
Caribbean Behavioural Health Systems, Inc.
CPC-PHP, Inc.; and

EXHIBIT 10.6

VENCOR, INC. 401(k)
MASTER TRUST AGREEMENT

Amended and Restated
Effective as of
January 1, 1997

VENCOR, INC. 401(k)
MASTER TRUST AGREEMENT

TABLE OF CONTENTS

VENCOR, INC.401(k) MASTER TRUST AGREEMENT

THIS MASTER TRUST AGREEMENT effective January 1, 1997, made and entered into this _____ day of December, 1996, by Vencor, Inc. ("Employer"), and Wachovia Bank of North Carolina, N.A., acting in its fiduciary capacity ("Trustee").

WITNESSETH THAT:

WHEREAS, the Employer maintains the Vencor, Inc. Retirement Savings Plan ("VRSP") to cover certain of its employees, continues to maintain after the Employer's merger with The Hillhaven Corporation, the Hillhaven Retirement Savings Plan ("RSP") and the Hillhaven Deferred Savings Plan (the "DSP ") for a short period prior to its merger with the RSP or VRSP, to cover other employees of the Employer, all of which are being amended and restated as of January 1,

1997 (together, the "Plans"); and

WHEREAS, the duties of the current trustee of the Plans will cease on January 1, 1997 and Employer desires to enter into a master trust agreement effective January 1, 1997 which will amend and restate the trust agreements for each of the Plans, with Wachovia Bank of North Carolina, N.A. as Trustee; and

WHEREAS, Wachovia Bank of North Carolina, N.A. desires to serve as Trustee;

NOW, THEREFORE, the Employer enters into this amended and restated Vencor, Inc. Retirement Savings Plan Trust Agreement ("Trust Agreement") in order to carry out the provisions of the Plans for the benefit of those employees who qualify for benefits under the provisions of the Plans. The Trustee agrees and declares it will hold, administer and disburse all funds received in trust by it from time to time as Trustee hereunder, for the uses and purposes and upon the terms and conditions hereinafter stated. The Employer, in consideration hereof, agrees with the Trustee as follows:

ARTICLE 1

TITLE

Section 1.01 The Trust shall be known as the Vencor, Inc. 401(k) Master Trust Agreement. The Employer intends that this Trust shall constitute a part of its Plans, and that they will together meet the requirements of the Act and qualify under Code Sections 401(a) and 501(a).

Section 1.02 All defined words and phrases in Article 1 of the VRSP, when used in this Trust Agreement, shall have the same meaning as given in Article 1 of the VRSP, unless a different meaning is clearly required by the context.

ARTICLE 2

CONTRIBUTIONS

Section 2.01 The Employer intends to deposit with the Trustee from time to time funds which will provide the benefits under the Plans. The Trustee shall have no duty to collect or enforce payment to it of any contributions, or to require any contributions to be made, and shall have no duty to compute any amount to be paid to it nor to determine whether amounts paid comply with the terms of a Plan. The Trustee shall hold the Trust Fund without distinction between principal and income.

Section 2.02 All necessary expenses that may arise in connection with the administration of the Plans and Trust, including but not limited to Trustee fees, will be paid from the Trust, unless otherwise paid by the Employer.

Section 2.03 The Trustee's fees shall be as set forth on Annex A hereto and incorporated herein by reference, which fees may not increase prior to January 1, 2001. Except for the restriction on changes in the preceding sentence, the Trustee's fees may be amended at any time by 60 days advance written notice from the Trustee to the Committee, provided that, if the Committee objects in writing to the change within that 60 days period, the fees may not change as so noted, although the Trustee reserves the right to resign if no change is agreed upon. Such fees shall be deducted by the Trustee from the earnings or corpus of the Trust Fund, unless first paid by the Employer, with the exception of any expenses which are specifically indicated on Annex A as requiring Employer direction before payment from the Trust.

Section 2.04 Pursuant to the provisions of the Plans, subsidiaries or affiliates of the Employer may become parties hereto and make contributions hereunder. The Trustee may commingle the assets of the Employer and its subsidiaries or affiliates for investment purposes without maintaining separate records of the entity from which contributions were deposited, unless specifically directed by the Employer.

ARTICLE 3

THE RETIREMENT COMMITTEE

Section 3.01 The Board of Directors of the Employer has, pursuant to the provisions of the Plans, appointed a Retirement Committee ("Committee") to administer the Plans, keep records of individual Participant benefits, and notify each Participant of the amount of his benefits periodically. The operation of the Committee shall be governed by the terms of the

Plans. The Employer will notify the Trustee of the names of the members of the Committee and of any changes in membership that may take place from time to time.

Section 3.02 The Committee shall direct the Trustee in writing to make payments from the Trust Fund to Participants who qualify for such payments under the terms of the Plans. Such written order (which may be conveyed by facsimile) to the Trustee shall specify the name of the Participant, his Social Security number, his address, and the amount and frequency of such payments.

Section 3.03 The Trustee may request instructions in writing from the Committee on other matters and may rely and act thereon. The Committee may further delegate its authority hereunder to direct the Trustee, and if it does so shall notify the Trustee in writing of that delegation.

Section 3.04 The Committee shall be responsible for the determination of individual accounts, and the Trustee need not segregate accounts among Participants for investment purposes, except as indicated in the Plans.

Section 3.05 The Trustee shall be a directed Trustee only, with no discretionary authority or responsibility, with respect to the assets of the Plans allocated or allocable to the accounts of the Participants. The Committee, as a named fiduciary, shall be solely responsible for the investment of the assets of the Plans allocated or allocable to the accounts of Participants (except as provided more specifically in paragraph (i) immediately below or by Section 5.18 of the Trust). Without limitation, the Committee, as named fiduciary,

(i) shall be responsible for investing such assets, except to the extent that such investment responsibility is delegated to one or more investment managers (other than the Trustee) under Section 403(a)(2) of the Act;

(ii) shall, to the extent that Participants and their Beneficiaries are given the right to direct the investment of their accounts, be the fiduciary to whom Participants and Beneficiaries are entitled to give such investment directions and the fiduciary responsible for carrying out such investment directions (by directing the Trustee or otherwise);

(iii) shall be responsible for any loss, or by reason of any breach, which results from the Participant's or Beneficiary's exercise of control over his account, except to the extent that Section 404(c) of the Act provides otherwise; and

(iv) shall be responsible for determining whether the documents and instruments governing the investment of the assets allocated or allocable to the accounts are consistent with the provisions of Titles I and IV of the Act, and if not, investing such assets in accordance with Titles I and IV of the Act notwithstanding such documents and instruments.

Notwithstanding the above, the Trustee shall be responsible for voting all securities held by the Trust, including Employer stock, and shall be responsible for prudently carrying out the investment instructions conveyed to it with care, skill and diligence normally exercised by prudent persons familiar with like matters. If a proxy is solicited on mutual fund shares held in the Trust with regard to an issue that might increase fees within the fund or alter its invesment policy, the Trustee shall promptly notify the Committee in writing, and shall not vote that proxy unless and until directed by the Committee how to vote. This Section 3.05 supersedes any contrary provision of the Plans or this Trust Agreement.

ARTICLE 4

THE TRUST FUND

Section 4.01 The contributions provided under Article 2 shall be deposited with the Trustee from time to time. All such deposits and such other funds or securities that shall be deposited with the Trustee under the terms hereof, and any increment thereto and income therefrom shall constitute the Trust Fund and shall be held by the Trustee in trust in a manner consistent with the objectives of the Plans for the exclusive benefit of Participants, Former Participants, or their Beneficiaries.

Section 4.02 The Trust is established and proposed to be continued in order to provide benefits for employees who are Participants in the event of their termination of employment, and death benefits for Beneficiaries of deceased Participants and Former Participants, all in accordance with the terms and provisions of the Plans.

Section 4.03 Title to the Trust Fund, including all funds and investments held hereunder by the Trustee from time to time, shall be and remain in the Trust and no Employee, Participant, Former Participant, Beneficiary or person claiming through any of them shall have any legal or equitable rights or interests in the Trust Fund except to the extent that such rights or interests may be expressly granted under the provisions of the Plans or this Trust Agreement.

Section 4.04 None of the benefits under the Plans are subject to the claims of creditors of Participants, Former Participants or their Beneficiaries and will not be subject to attachment, garnishment or any other legal process. Neither a Participant, a Former Participant, a Beneficiary, a contingent Beneficiary, nor a spouse may assign, sell, borrow on or otherwise encumber any of his beneficial interest in this Trust nor shall any such benefits be in any manner liable for or subject to the deeds, contracts, liabilities, engagements, or torts of any Participant, terminated Participant, Beneficiary, contingent Beneficiary or spouse. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with

respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in section 414(p) of the Code, by the Committee.

Section 4.05 In no event shall any of the principal or income of the Trust Fund be used for, or diverted to, purposes other than the exclusive benefit of Participants, Former Participants, Beneficiaries, contingent Beneficiaries, and spouses, or in the payment of the expense of the Plans as set forth in this Trust Agreement, except as provided in the Plans.

Section 4.06 All contributions made by the Employer are expressly conditioned upon the initial and continued qualification of the Plans under the Code, and upon the deductibility of contributions made to the Plans under Section 404 of the Code. Upon the Employer's request, a contribution which is made by a mistake of fact, or conditioned upon qualification of the Plans, or any amendment thereof, or upon the deductibility of contributions, shall be refunded to the Employer within one year after the payment of the contribution, the denial of the qualification or the disallowance of the deduction (to the extent disallowed), whichever is applicable.

Section 4.07 Assets transferred pursuant to the terms hereof shall be invested by the Trustee in accordance with the terms of this Trust Agreement, and shall be distributed to the Participants under the terms of the Plans and this Trust Agreement. The Trust will consist of Investment Funds designated from time to time by the Committee, suitably distinct in investment characteristics and objectives, from which participants in the Plans may choose for investment of assets in their accounts.

Section 4.08 The Trustee shall hold the assets of the Trust as a commingled fund or commingled funds in which each separate Plan shall be deemed to have a proportionate undivided interest in the fund or funds in which it participates, except any such assets required to be segregated by the provisions herein or by the provisions of the Plans.

Section 4.09 The Trustee may be directed to maintain such records as will enable it to effect, as of any time, an equitable allocation and segregation of such commingled assets into one or more separate funds held for the benefit of all, or some, of the Participants and Beneficiaries under the Plans. If in the future the Trustee receives written notice from the Committee to effect such allocation and segregation, the Trustee shall do so as soon thereafter as practicable. Thereafter, the Trustee shall administer each such separate fund in the manner provided in Section 4, or if so directed by the Committee, shall deliver the assets of any such separate fund to such successor trustee or trustees as shall be designated by the Employer.

ARTICLE 5

POWERS AND DUTIES OF THE TRUSTEE

The Trustee shall have all the powers necessary to carry out the provisions hereunder. In amplification, but not in limitation of such powers, the Trustee shall have the following powers and immunities and be subject to the following duties:

Section 5.01 The Trustee shall receive all contributions hereunder and apply such contributions as hereinafter set forth.

Section 5.02 The Trustee shall have the custody of and safely keep all cash, securities, property and investments received or purchased in accordance with the terms hereof.

Section 5.03 Subject to any limitations that may be contained elsewhere in this Trust Agreement, the Trustee shall take control and management of the Trust and shall hold, sell, buy, exchange, invest and reinvest the corpus and income of the Trust, including qualifying employer securities or qualifying employer real property. All contributions paid to the Trustee shall be held and administered by the Trustee as a single trust fund, and the Trustee shall not be required to segregate and invest separately any part of the Trust Fund representing accruals or interests of individual Participants of the Plans except as specifically directed in the Plans or by the Committee.

Section 5.04 The Trustee shall allocate to and invest contributions as part of each Investment Fund pursuant to any investment directives made by the Participants and received from the Committee. Income from investments in each Investment Fund shall be reinvested in the same Investment Fund.

Section 5.05 The Trustee may engage in any transaction with (i) a common or collective trust fund or pooled or mutual investment fund maintained by a "party in interest" (as defined in Section 3(14) of the Act) which is a bank or trust company, including the Trustee or an affiliate of the Trustee, or a related entity thereto supervised by a state or federal agency or (ii) a pooled investment fund of an insurance company authorized to do business in a state if the transaction is a sale or purchase of an interest in the fund and the bank, trust company, related entity or insurance company receives not more than reasonable compensation. The instrument creating such collective or common trust fund or pooled or mutual investment fund, together with any amendments, modifications, or supplements herein and made a part hereof as fully, and for all intents and purposes, as if set forth herein in their entirety which shall be controlling notwithstanding any contrary provision of this Trust Agreement including the time and manner of withdrawal from any fund which shall be in the discretion of the Trustee of the fund.

Section 5.06 The Trustee may sell or exchange any property or asset of the Trust at public or private sale, with or without advertisement upon terms acceptable to the Trustee and in such manner as the Trustee may deem wise and proper. The proceeds of any such sale or exchange may be reinvested as provided in this Trust Agreement. The purchaser of any such property from the Trustee shall not be required to look to the application of the proceeds of any such sale or exchange of the Trustee.

Section 5.07 The Trustee shall have full power to borrow, pledge, lease, or otherwise dispose of the property of the Trust without securing any order of court therefor, without advertisement, and to execute any instruments containing any provisions which the Trustee may deem proper in order to carry out such actions. Any such lease so made by the Trustee

shall be binding, notwithstanding the fact the term of the lease may extend beyond the termination of the Trust.

Section 5.08 The Trustee shall have the power to borrow money upon terms agreeable to the Trustee and pay interest thereon at rates agreeable to the Trustee, and to repay any debts so created.

Section 5.09 The Trustee may participate in the reorganization, recapitalization, merger, or consolidation of any corporation wherein the Trustee may own stock or securities and may deposit such stock or other securities in any voting trust or protective committee or like committee or trustee or with the depositories designated thereby, and may exercise any subscription rights or conversion privileges, and generally may exercise any of the powers of any owner, including but not limited to, voting proxies with respect to any stock or other securities or property comprising the Trust.

Section 5.10 The Trustee shall not be responsible for the adequacy of the Trust to discharge any and all payments under this Trust Agreement. Cash received under any of the provisions hereof may be deposited by the Trustee in accounts in its own banking division, or in such other banking institutions as may be selected by the Trustee under such provisions with respect to interest as may be permitted by law. All persons dealing with the Trustee are released from inquiry into the decision or authority of the Trustee to act.

Section 5.11 The Trustee shall not be required to institute any legal action for the protection of the Trust or in carrying out the duties of the Trustee hereunder unless it shall first be indemnified by the Employer for any and all expenses in connection therewith.

Section 5.12 The Trustee shall keep an accurate record of its administration of this Trust and shall include a detailed account of all investments, receipts and disbursements, and other transactions hereunder, and all accounts, books and records relating hereto shall be open for inspection to any person designated by the Committee or the officers of the Employer at all reasonable times. Within 30 days following the close of each calendar month, quarter and year, the Trustee shall file with the Employer a written report setting forth all investments, receipts and disbursements and other transactions during such period. Such reports shall contain an exact description of all securities purchased, exchanged or sold, the cost or net proceeds of sale, and shall show the securities and investments held at the end of such period, and the cost of each item, as carried on the books of the Trustee.

Section 5.13 The Trustee may hold stocks, bonds or other securities in its own name as Trustee, with or without the designation of said trust estate, or in the name of a nominee selected by it for the purpose, but said Trustee shall nevertheless be obligated to account for all securities received by it as a part of the corpus of the trust estate herein created, notwithstanding the name in which the same may be held.

Section 5.14 No broker, transfer agent, or purchaser shall be required to ascertain whether or not the Trustee has obtained prior approval from any source for the sale or purchase of any of the assets of the Trust.

Section 5.15 At no time during the administration of this Trust shall the Trustee be required to obtain any court approval of any act required of it in connection with the performance of its duties or in the performance of any act required of it in the administration of its duties as Trustee. The Trustee shall have full authority to exercise its judgment in all matters and at all times without court approval of such decisions; provided, however, that if any application to or proceeding or action in the courts is made, only the Employer and the Trustee shall be necessary parties, and no Participants in the Plans or other person having an interest in the Trust shall be entitled to any notice or service of process. Any judgment entered in such proceeding or action shall be conclusive upon all persons claiming an interest under the Trust.

Section 5.16 The Trustee may consult with legal counsel (who may also be counsel to the Employer) concerning any question which may arise with reference to its duties under this agreement, and the opinion of such counsel shall be full and complete protection in respect to any action taken or suffered by the Trustee hereunder in good faith and in accordance with the opinion of such counsel.

Section 5.17 The Trustee may employ such counsel, accountants, and other agents as it shall deem advisable, after first notifying the Employer of the employment. The Trustee may charge the compensation of such counsel, accountants and other agents against the Fund if not paid by the Employer within 90 days following invoice of those costs.

Section 5.18 The Employer may appoint an investment manager or managers to manage any assets of the Plans. Without limiting the generality of the above, it is specifically provided that such power of management includes the power to acquire or dispose of said assets, to direct brokerage transactions and all other powers and authority concerning the Trust Fund investments it is managing hereby granted to the Trustee. In such event, the responsibility for investment decisions shall be clearly allocated in writing between the investment manager, Trustee and Committee, and neither shall be responsible for the action or inaction of the other.

ARTICLE 6

REMOVAL OR RESIGNATION OF THE TRUSTEE

Section 6.01 The Trustee may be removed by the Employer at any time upon 30 days advance notice in writing to the Trustee. The Trustee may resign at any time upon 30 days notice in writing to the Employer. Within 30 days after such removal or resignation of the Trustee, the Trustee shall file with the Employer a written report setting forth all investments, receipts and disbursements, and other transactions effected by it since the end of the preceding fiscal year. Such report shall contain an exact description of all securities and property

purchased and sold, the cost or net proceeds of sale and shall further indicate such assets held to such date of removal or resignation, together with the cost of each item, as carried on the books of the Trustee.

Section 6.02 Immediately upon the removal or resignation of the Trustee, the Employer shall appoint and designate a new Trustee with the same powers and duties as those conferred upon the Trustee hereunder, and the Trustee shall assign, transfer and pay to the successor Trustee the assets then constituting the Trust hereunder, and shall fully cooperate with the Employer and the successor trustee to transition its custody and duties in a timely manner.

Section 6.03 The Trustee (if fees are due and not paid by the Employer) is authorized first to reserve such sum of money, or to liquidate such property and reserve the proceeds thereof, as it may deem advisable for the payment of its expenses or outstanding charges in connection with the settlement of its account or otherwise, and any balance of such reserve remaining after the payment of such expenses and charges shall be paid over to the successor Trustee.

ARTICLE 7

AMENDMENTS

Section 7.01 This Trust Agreement may be modified, altered or amended by an instrument in writing, duly executed and acknowledged by the Employer, provided, however, that the duties, powers and liabilities of the Trustee shall not be substantially increased without the written consent of the Trustee; and provided, further, an executed copy of such instrument must be delivered to the Trustee. Any such modification, alteration or amendment may be made effective retroactively if necessary to bring the Trust into conformity with governmental regulations which must be complied with in order to make the Plans or Trust eligible for tax benefits. No amendment or modification shall operate to deprive any Participant, Former Participant, Beneficiary, contingent Beneficiary, or spouse of any vested rights or benefits accrued to him prior to such amendment or modification, nor shall any amendment or modification cause or authorize any part of the funds of the Trust to revert to or be refunded to the Employer, except as indicated in the Plans. Moreover, no amendment to the Plans or Trust shall decrease the balance of a Participant's Individual Account or eliminate an optional form of distribution.

ARTICLE 8

DISCONTINUANCE OF THE PLANS

Section 8.01 The Employer may terminate the Plans at any time.

Section 8.02 If the Employer discontinues the Plans, the Committee shall compute the value of the Individual Accounts of Participants and the accounts of other persons having an

interest in the Trust Fund. The Individual Accounts of Participants and any other persons having an interest in the Trust Fund computed in the manner aforementioned shall immediately vest and be applied by the Trustee in the manner and at such times as directed by the Committee.

Section 8.03 In the event of the discontinuance of the Plans where there is no continuing Employer, the Trustee is empowered to pay from the Trust Fund the necessary expenses incurred under such discontinuance by reduction of the individual accounts of Participants, Former Participants and beneficiaries on a pro rata basis. If an Employer continues to be associated with the Plans, the Employer shall direct the Trustee with respect to payment of final Plans' expenses.

ARTICLE 9

LIABILITY OF TRUSTEE

Section 9.01 The Trustee shall be fully protected in relying upon the existence of any fact or state of facts represented to it in writing by the Employer or the Committee.

Section 9.02 Except with respect to fiduciary responsibility for any error or loss that may result by reason of the exercise or non-exercise of that fiduciary responsibility which is allocated to the Trustee hereunder which is

determined to be the result of the Trustee's own negligence or willful misconduct, the Employer shall indemnify the Trustee, directly from the Employer's own assets (including the proceeds of any insurance policy the premiums of which are paid from the Employer's own assets), from and against any and all claims, demands, losses, damages, expenses (including, by way of illustration and not limitation, reasonable attorneys' fees and other legal and litigation costs), judgments and liabilities arising from, out of, or in connection with the administration of the Plans and Trust. The Trustee shall not be liable for any action taken by the Trustee or any failure to act by the Trustee if the action taken or the failure to act was directed by the Administrator, the Committee, the Company, or an Investment Manager or any other named fiduciary, if the Trustee reasonably relied on such direction and the Trustee reasonably believed such direction was consistent with the Act.

Section 9.03 The indemnity provided by Section 9.02 shall survive the termination of this Trust Agreement.

Section 9.04 The Trustee shall discharge its duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Section 9.05 The Trustee shall be under no obligation to determine the amount of benefits to which Participants or their beneficiaries will be entitled or to keep any records of the respective interest of any individual Participant or beneficiary in the Plans. The Trustee,

upon written instructions from the Committee, shall make payments to the Participants who qualify for such benefits. The Trustee shall have no liability to the Employer, Committee, or to any other person in making such payments. The Trustee shall not be required to determine or make any investigation to determine the identity or mailing address of any person entitled to benefits and shall have discharged its obligation in that respect when it shall have sent checks, securities and other papers by ordinary mail to such person or persons and addresses as may be certified to it in writing by the Committee.

Section 9.06 It is recognized that the Trustee does not guarantee the assets of the Trust from loss or depreciation and shall be liable only for failure to discharge his duties in accordance with this Trust Agreement.

ARTICLE 10

MISCELLANEOUS

Section 10.01 For purposes of Part 4 of Title I of the Act, the Employer, the Trustee, and the Committee and those parties to whom any duties are allocated under Section 5.18 of the Trust Agreement, as such provision may hereinafter be amended, shall each be named fiduciaries. All actions by named fiduciaries shall be in accordance with the terms of the Plans and this Trust as such documents are consistent with the provisions of Title I of the Act. Each named fiduciary shall act solely in the interest of Participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable administrative expenses. Each named fiduciary shall discharge his duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Section 10.02 The Employer shall be responsible for the administration and management of the Plans except for those duties hereinafter specifically allocated to the Committee or the Trustee. The Trustee shall have exclusive responsibility for the management and control of the assets of the Plans, except to the extent that (i) an investment manager is appointed under Section 5.18 or (ii) the Committee assumes investment responsibility under Section 3.05. Each fiduciary shall be responsible only for the specific duties assigned hereunder or in the Plans and shall not be directly or indirectly responsible for the duties assigned to another fiduciary. The Employer shall be deemed the administrator for purposes of the Plan and the Act.

Section 10.03 This Trust Agreement is made in contemplation of the laws of the Commonwealth of Kentucky and shall be construed in accordance with the laws thereof, except where such laws are superseded by Act or the Code, in which case such Act or law shall control.

Section 10.04 In making any distribution to or for the benefit of any minor or incompetent beneficiary, the Committee, in its sole, absolute and uncontrolled discretion, may,

but need not, order the Trustee to make such distribution to a legal or natural guardian or other relative of such minor or court appointed committee of such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, and any such guardian, committee, relative or other person shall have full authority and discretion to expend such distribution for the use and benefit of such minor or incompetent, and the receipt of such guardian, committee, relative or other person shall be a complete discharge to the Trustee, without any responsibility on its part or on the part of the Retirement Committee to see to the application thereof.

Section 10.05 Titles of Articles and headings to Sections in this Trust Agreement are inserted for convenience of reference only and, in the event of any conflict, the text of this instrument, rather than such titles or headings, shall control.

* * * * * * * * * * *

IN WITNESS WHEREOF, the Employer has caused this instrument to be executed, and the Trustee has executed this instrument to evidence its acceptance of the Trust hereby effective as of January 1, 1997.

VENCOR, INC.

By /s/ Jill L. Force

Title: V P

Date: 12/26/96

WACHOVIA BANK OF NORTH CAROLINA, N.A.

By /s/ Peter Quinn

Title: VICE PRESIDENT

Date: 12/30/96

ANNEX A
TRUSTEE FEES

1. Ad Valorem fee for Vencor stock or other assets not included in #2 below of 10 basis points for first $10,000,000 of market value; 5 basis points for next $40,000,000 in market value, over $50,000,000 negotiated to a lower rate.
2. Ad Valorem charge of .0003 per $1,000 of value for each account which consists entirely of Guaranteed Investment Contracts, Bank Investment Contracts, Mutual Funds, and Commingled Funds.
3. Distributions made during the period will be added back to the market value.
4. A $1,000 charge will be assessed for each account which consists entirely of guaranteed investment contracts, bank investment contracts, mutual funds and commingled funds.
5. There will be a $30 charge per transaction for all GICs, BIC's, mutual or commingled funds of other banks or institutions.
6. $1,000 per account will be charged for each Biltmore Fund, but no ad valorem or transaction charges apply to these accounts.
7. Master Trust Plan accounting charge of $750 for each assets pool maintained separately. For plan accounts first 5, $.00; next 5, $500 each; next 5, $300 each; over 15, $200 each.
8. $10 for each wire transfer, other than to GIC's, BIC's, mutual or commingled funds.
9. Annual rate of $1.50 per $1,000 of average daily balance of cash swept daily into Wachovia Diversified Short Term Fund.
10. Periodic benefit payments by check are $1.25 plus postage for standard form input; $2.00 plus postage for non-standard form input; $1.00 by ACH.
11. Non-periodic benefit payments by check, with complete amount and taxability instructions:
    $2.50 plus postage by tape input
    $5.00 plus postage by standard form input
    $10.00 plus postage by other input
    $25.00 plus postage for priority and customized processing
12. Vendor fee payments $5.00 plus postage by check (including 1099 MISC processing) where required.
13. Periodic payment conversion fee of $2.00 each.
14. Security distributions at $15.00 plus postage (discounted for automated registration).
15. $5.00 each for transmittals of prepared forms with variable input (discount for automated registration).
16. $1.00 each for matching with checks, certificates, etc.
17. Life insurance premium payments and policy distributions $15.00 each; $5.00 each for PS-58 reporting.
18. Stop payments $15.00 initialization.
19. $5.00 each to checking account funding at Wachovia; $10.00 each for wires to other accounts.
20. $0.06 each to address proxies; $0.04 to address labels; $0.04 each to affix labels to proxies and their envelopes; $0.05 for the first enclosure insert; $0.04 for each additional insert; $0.37 to tabulate proxies for the first 2 elections, and $0.07 for each additional election.
21. Postage expense, mail processing, cost of materials and reproduction expense will be charged at cost of materials plus labor.
22. Fair and reasonable negotiated fees (chargeable only with advance approval and then not payable from Trust unless specifically directed to do so) will be charged for extraordinary services.
23. Travel beyond four meetings (one each quarter) and systems work and other expenses will be charged at cost, with advance approval, and will not be charged to the trust unless specifically directed to do so.
24. $5,000 per year for voting of Employer stock - additional fees may apply

for corporate actions, significant proxy issues, reorganizations, bankruptcy and other significant events requiring substantial additional activity or additional fiduciary liability.

25. Fees are payable quarterly with minimum quarterly charge of $625.
26. Fees will be guaranteed until December 31, 1999.

EXHIBIT 10.7

AMENDMENT NO. 1
TO THE
VENCOR, INC. 401(K)
MASTER TRUST AGREEMENT

This is Amendment No. 1 ("Amendment") to the Vencor, Inc. Master Trust Agreement which was effective January 1, 1997 with Wachovia Bank of North Carolina, N.A. (The "Trust Agreement").

RECITAL

The parties wish to amend the Trust Agreement to clarify its original intent.

AMENDMENT

1. This Amendment shall be effective as of January 1, 1997.

2. All capitalized terms used herein and not otherwise defined shall have the meaning given in the Trust Agreement.

3. Section 3.5 of the Trust Agreement is hereby amended so that as amended it shall read in its entirety as follows:

> "Section 3.05 The Trustee shall be a directed Trustee only, with no discretionary authority or responsibility, with respect to the assets of the Plans allocated or allocable to the accounts of the Participants. The Committee, as a named fiduciary, shall be solely responsible for the investment of the assets of the Plans allocated or allocable to the accounts of Participants (except as provided more specifically in paragraph (i) immediately below or by Section 5.18 of the Trust). Without limitation, the Committee, as named fiduciary,
>
> (i) shall be responsible for investing such assets, except to the extent that such investment responsibility is delegated to one or more investment managers (other than the Trustee) under Section 403(a)(2) of the Act;
>
> (ii) shall, to the extent that Participants and their Beneficiaries are given the right to direct the investment of their accounts, be the fiduciary to whom Participants and Beneficiaries are entitled to give such investment directions and the fiduciary responsible for carrying out such investment directions (by directing the Trustee or otherwise);
>
> (iii) shall, except to the extent that Section 404(c) of the Act provides that it is not responsible because the Participant or Beneficiary has exercised control over his account, be responsible for any loss by reason of any breach of its fiduciary obligations hereunder; and
>
> (iv) shall be responsible for determining whether the documents and instruments governing the investment of the assets allocated or allocable to the accounts are consistent with the provisions of Titles I and IV of the Act, and if not, investing such assets in accordance with Titles I and IV of the Act notwithstanding such documents and instruments.

IN WITNESS WHEREOF, this Amendment has been executed as of the dates set forth below.

VENCOR, INC.

By /s/ Cecelia A. Hagan

Title: Vice President of Human Resources

Date: 7/16/97

WACHOVIA BANK OF NORTH CAROLINA, N.A.

By /s/ JOHN TRALONGO

Title: Vice President

Date: 5/13/97

EXHIBIT 10.8

RETIREMENT SAVINGS PLAN
FOR CERTAIN EMPLOYEES OF VENCOR
AND ITS AFFILIATES

Amended and Restated Effective
as of

January 1, 1997

TABLE OF CONTENTS

INTRODUCTION

Effective January 1, 1997 except as otherwise provided herein, the Board of Directors of Vencor, Inc., successor by merger to the Hillhaven Corporation (the "Sponsoring Employer"), desires to amend and restate in its entirety the Plan formerly known as The Retirement Savings Plan of The Hillhaven Corporation and originally effective as of January 1, 1991 to be called the Retirement Savings Plan for Certain Employees of Vencor and Its Affiliates, as hereinafter set forth.

Also effective January 1, 1997, or as soon as practicable thereafter, the Plan and Trust shall accept assets in a spinoff from The Hillhaven Corporation Deferred Savings Plan and Employer desires to make provision for how to account for assets transferred from that plan.

It is intended that this Plan, together with the Trust Agreement, meet all the pertinent requirements of the Internal Revenue Code of 1986, as amended ("Code") and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and shall be interpreted, wherever possible, to comply with the terms of said laws, as amended, and all formal regulations and rulings issued thereunder. It is also intended that this Plan shall be a profit sharing plan under Code Section 401(a).

ARTICLE 1

DEFINITIONS

Section 1.1 ADJUSTMENT means the net increases and decreases in the market value of the Trust Fund during a Plan Year or other period exclusive of any contribution or distribution during such year or other period. Such increases and decreases shall include such items as realized or unrealized investment gains and losses and investment income, and may include expenses of administering the Trust Fund and the Plan.

Section 1.2 ANNUAL ADDITIONS means for any Employee in any Plan Year, the sum of Employer Contributions, Salary Redirection and forfeitures allocated to the Employee's Individual Account. Amounts allocated to an individual medical account, as defined in Section 415(1) of the Code, which is part of a pension or

annuity plan maintained by the Company are treated as Annual Additions to a Defined Contribution Plan. Also, amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee as required by Section 419(d) of the Code, maintained by the Company, are treated as Annual Additions to a Defined Contribution Plan.

Section 1.3 BENEFICIARY means any person designated by a Participant to receive such benefits as may become payable hereunder after the death of such Participant, provided, however, that a married Participant may not name as a Beneficiary someone other than the Participant's spouse unless the spouse consents in writing to such designation, which consent shall be acknowledged by a Plan representative or by a notary public.

Section 1.4 BOARD means the Board of Directors of the Sponsoring Employer, except as otherwise provided.

Section 1.5 BREAK(S) IN SERVICE means a Plan Year during which an Employee has been credited with fewer than 501 Hours of Service due to termination of employment. Solely to determine whether a Break in Service has occurred, an Employee who is absent from work for maternity or paternity reasons or on a military or Family and Medical Leave Act leave of absence shall receive credit for the Hours of Service which would otherwise have been credited to such Employee but for such absence, or in any case in which Hours of Service cannot be determined, eight Hours of Service per day of such absence. In no event will the number of Hours of Service credited to an Employee pursuant to the immediately preceding sentence exceed 501. For purposes of this Section, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the Employee, (2) by reason of the birth of a child of the Employee, (3) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the Plan Year or other applicable computation period in which the

absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the next following Plan Year or other applicable computation period.

Section 1.6 CODE means the Internal Revenue Code of 1986, as amended.

Section 1.7 COMMITTEE means the Retirement Committee provided for in Article 8.

Section 1.8 COMPANY means Vencor, Inc. and all of the legal entities which are part of the controlled group or affiliated service group with Vencor, Inc. pursuant to the provisions of Code Sections 414(b), (c), (m) or (o).

Section 1.9 COMPENSATION means, for any Plan Year or portion thereof during which an Employee is eligible to participate in this Plan (which shall not include compensation payable for periods after employment terminates, such as severance pay, but shall include vacation time earned but not yet paid as of that last date at work), total compensation paid to an Employee by the Employer that is includable in the Participant's gross income, including bonuses, commissions and overtime, but excluding (i) reimbursements or other expense allowances, (ii) fringe benefits (cash and noncash), (iii) moving expenses, (iv) deferred

compensation, (v) welfare benefits, and (vi) amounts realized from the exercise of a nonqualified stock option (or the lifting of restrictions on restricted stock) or the sale or exchange of stock acquired under a qualified stock option. Despite the exclusions in the preceding sentence, Compensation shall include any amounts deducted pursuant to Code Sections 125 (flexible benefit plans), 402(a)(8) (salary redirection), 402(h)(1)(B) (simplified employee plans) and 403(b). Effective for Plan Years beginning on or after January 1, 1989, Compensation shall be limited to such amount as determined pursuant to Code Section 401(a)(17).

Section 1.10 CONSTRUCTION. The words and phrases defined in this Article when used in this Plan with an initial capital letter shall have the meanings specified in this Article, unless a different meaning is clearly required by the context. Any words herein used in the masculine shall be read and construed in the feminine where they would so apply. Words in the singular shall be read and construed as though used in the plural in all cases where they would so apply.

Section 1.11 DEFINED BENEFIT PLAN means a plan established and qualified under Section 401 of the Code, except to the extent it is, or is treated as, a Defined Contribution Plan.

Section 1.12 DEFINED CONTRIBUTION PLAN means a plan which is established and qualified under Section 401 of the Code, which provides for an individual account for each participant therein and for benefits based solely on the amount contributed to each participant's account and any income, expenses, gains or losses (both realized and unrealized) which may be allocated to such account.

Section 1.13 EFFECTIVE DATE means January 1, 1991, the original effective date of the Plan. The effective date of this amended and restated Plan is January 1, 1997, except as otherwise provided.

Section 1.14 EMPLOYEE means any person whom the Employer classifies as a common law employee of the Employer and who is paid though the normal payroll system of the Employer, and with respect to any separate entity other than those defined in Section 1.15 (iv) or (v) or (vi), which person is also either:

(a) a member of a collective bargaining unit for which benefits have been the subject of good faith negotiation, unless and until the Company and the collective bargaining unit representative for that unit through the process of good faith bargaining agree in writing for coverage under the VRSP;

(b) working in a facility that is managed by the Employer pursuant to a management agreement, except to the extent that the management agreement specifies that certain employees will report to and be provided benefits by a member of the Vencor, Inc. group of Companies, in which event the specified employee(s) shall be eligible to participate in the VRSP rather than this Plan.

The term "Employee" shall exclude any person who is classified on the payroll records of the Employer as "on call" or as a per diem employee. The term "Employee" shall also exclude any person who is a leased Employee.

For purposes of this Section the term "leased employee" shall mean any person who is not an employee of the Employer and who provides services to the Employer if (i) such services are

provided pursuant to an agreement between the Employer and any other person ("leasing organization"); (ii) such person has performed such services for the Employer on a substantially full-time basis for a period of at least one year; and (iii) such services are performed under the primary direction and control of the Employer.

Section 1.15 EMPLOYER means (i)Vencor, Inc.; and (ii) each of the legal entities, or any successor thereto, which participates in the VRSP as of January 1, 1997 or which thereafter is a part of the Company and adopts the VRSP for its eligible Employees with the consent of the Sponsoring Employer; and (iii) any entity that is managed by the Company pursuant to a management agreement, provided that the entity which provides management services has adopted this Plan for the benefit of its employees (as evidenced as of January 1, 1997 by their name being listed on Appendix A); and (iv) Atria Communities, Inc.; and (v) each of the legal entities, or any successor thereto, which would be part of the Company if Atria Communities, Inc. were substituted for Vencor, Inc. in the definition of "Company" herein, and which have adopted the Plan for its eligible Employees with the consent of the Sponsoring Employer (as evidenced as of January 1, 1997 by their name being listed on Appendix A); and (vi) the partnerships listed on Appendix A hereto or which

hereafter become participating employers pursuant to the procedure in Article 12 hereof. The Sponsoring Employer shall be Vencor, Inc. For application of various provisions of the Internal Revenue Code to this Plan, the rules apply to each entity included as an Employer which is a member of a controlled group or a group under common control within the meaning of Code Sections 414(b), (c), (m) or (o). Reference to "an Employer" herein shall refer separately to each such employer group. References to "the Employer" shall apply to all Employers set out above as a group.

Section 1.16 EMPLOYER CONTRIBUTIONS means Matching Contributions and Profit Sharing Contributions made to the Trust Fund by the Employer. Salary Redirection shall not be included in the term Employer Contribution when used in this Plan.

Section 1.17 ENTRY DATE means the first day of each calendar month.

Section 1.18 ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Section 1.19 FIDUCIARY means the Employer, the Trustee, the Committee and any individual, corporation, firm or other entity which assumes, in accordance with Article 8, responsibilities of the Employer, the Trustee or the Committee respecting management of the Plan or the disposition of its assets.

Section 1.20 FORMER PARTICIPANT means a Participant whose participation in the Plan has terminated but who has not received payment in full of the balance in his Individual Account to which he is entitled.

Section 1.21 HIGHLY COMPENSATED EMPLOYEE means any Employee of an Employer who (i) was a five percent owner of the Employer during the current Plan Year or the preceding Plan Year, or (ii) during the preceding Plan Year, received Compensation from an Employer in excess of $80,000 (as such amount may be adjusted from time to time by the Secretary of the Treasury) and, if the Sponsoring Employer elects, was in the top-paid group of employees for such Plan Year.

The determination of who is a Highly Compensated Employee, including the determination of the number and identity of employees in the top-paid group and the Compensation that is considered, shall be made in accordance with section 414(q) of the Code and the regulations thereunder, taking into account, when appropriate, Code Section 410(b)(6)(C)'s acquisition transition rule which allows exclusion of certain Employees from consideration. The determination of Highly Compensated Employees shall be determined on an aggregate basis for each Employer that is treated as a controlled group under Code Sections 414(b), (c), (m) and (o), except as otherwise provided in applicable Treasury Regulations.

Section 1.22 HOUR OF SERVICE means any hour for which an Employee is paid or entitled to payment by an Employer during the Plan Year or other applicable computation period (1) for the performance of duties for an Employer; (2) on account of a period

of time during which no duties are performed (irrespective of whether the employment relationship has terminated); and (3) as a result of a back pay award which has been agreed to or made by an Employer, irrespective of mitigation of damages, to the extent that such hour has not been previously credited under item (1) or item (2) preceding.

(a) The number of Hours of Service to be credited on account of a period of time during which no duties are performed (including hours resulting form a back pay award) shall be determined as follows. If the payment which is made or due is calculated on the basis of units of time, the number of Hours of Service to be credited shall be the number of regularly scheduled working hours included in the units of time on the basis of which the payment is calculated; if an Employee does not have a regular work schedule, the number of Hours of Service to be credited shall be calculated on the basis of an eight hour work day. If the payment which is made or due is not calculated on the basis of units of time, the number of Hours of Service to be credited shall be calculated by dividing the amount of the payment by the Employee's most recent hourly rate of compensation before the period during which no duties were performed, determined as follows:

(1) If the Employee's compensation is determined on the basis of an hourly rate, such hourly rate shall be the Employee's most recent hourly rate of compensation.

(2) If the Employee's compensation is determined on the basis of a fixed rate for a specified period of time other than hours, his hourly rate of compensation shall be his most recent rate of compensation for the specified period of time, divided by the number of hours regularly scheduled for the performance of duties during such period of time; if an Employee does not have a regular work schedule, his hourly rate of compensation shall be calculated on the basis of an eight hour work day.

(3) If the Employee's compensation is not determined on the basis of a fixed rate for a specified period of time, his hourly rate of compensation shall be the lowest hourly rate of compensation paid to Employees in his job classification, or, if no Employees in his job classification have an hourly rate of

compensation, the minimum wage in effect under Section 6(a)(1) of the Fair Labor Standard Act of 1938, as amended.

(b) In no event shall the application of the terms of Section 1.23(a) result in crediting an Employee with a number of Hours of Service during the period which is greater than the number of hours regularly scheduled for the performance of duties. If an Employee has no regular work schedule, the number of Hours of Service to be credited to him shall not exceed the

number which would be credited calculated on the basis of an eight hour work day.

(c) No Employee shall be credited with more than 501 Hours of Service as a result of the application of Section 1.22(a) for any single continuous period during which he performs no duties, regardless of whether such period extends beyond one Plan Year or other applicable computation period.

(d) The Plan Year or other applicable computation period to which Hours of Service shall be credited shall be determined as follows:

(1) Except as hereinafter provided, Hours of Service credited in accordance with item (1) of the first paragraph of this Section shall be credited in the Plan Year or other applicable computation period in which the duties were performed.

(2) Except as hereinafter provided, Hours of Service credited in accordance with item (2) of the first paragraph of this Section shall be credited: if calculated on the basis of units of time, to the Plan Year or Plan Years or other applicable computation periods in which the period during which no duties are performed occurs, beginning with the first unit of time to which the payment relates; otherwise to the Plan Year or other applicable computation period in which the period during which no duties are performed occurs, provided that if the period during which no duties are performed extends beyond one (1) Plan Year or other applicable computation period, such Hours of Service shall be allocated between not more than the first two (2) Plan Years or other applicable computation periods on any reasonable basis consistently applied.

(3) Except as hereinafter provided, Hours of Service credited in accordance with item (3) of the first paragraph of this Section shall be credited to the Plan Year or other applicable computation period to which the award or agreement for back pay pertains rather than to the Plan Year or other applicable computation period in which the award, agreement, or payment is made.

(4) Hours of Service to be credited to an Employee in connection with a period of no more than 31 days which extends beyond one Plan Year or other applicable computation period may be credited to the first or the second Plan Year or other applicable computation period, provided that such crediting is done on a reasonable and nondiscriminatory basis.

(e) Nothing in this Section shall be construed to alter, amend, modify, invalidate, impair or supersede any law of the United States or any rule or

regulation issued under any such law, including but not limited to laws regarding eligibility and benefit accrual during and after a military leave of absence. The nature and extent of any credit for Hours of Service under this Section shall be determined under such law including Department of Labor regulation Section 2530.200b-2.

Section 1.23 INDIVIDUAL ACCOUNT means the detailed record kept of the amounts credited or charged to each Participant in accordance with the terms hereof. Such Individual Account is comprised of the following accounts: a Profit Sharing Contribution Account, a Salary Redirection Account, a Matching Contribution Account, a Prior Plan Salary Redirection Account, if applicable, and a Prior Plan Employer Contribution Account, if applicable.

Section 1.24 INVESTMENT FUND means an investment fund established pursuant to Section 4.2.

Section 1.25 KEY EMPLOYEE shall mean any Employee, former Employee or beneficiary thereof in an Internal Revenue Service qualified plan adopted by an Employer who at any time during the Plan Year or any of the four preceding Plan Years is

(a) an officer of an Employer having an annual compensation from an Employer during the Plan Year greater than 50% of the amount in effect under Code Section 415(b)(1)(A) for the calendar year in which such Plan Year ends;

(b) one of the 10 Employees having an annual compensation from an Employer for a Plan Year of more than the limitation in effect under Code Section 415(c)(1)(A) for the calendar year in which such Plan Year ends and owning (or considered as owning within the meaning of Code Section 318) both more than a 1/2% interest, and the largest interest in an Employer;

(c) a five percent owner of an Employer; or

(d) a one percent owner of an Employer having an annual compensation from an Employer for a Plan Year of more than $150,000.

(e) For purposes of this Section, compensation mean compensation as defined in Code Section 415.

(f) This definition shall be interpreted consistent with Code Section 415 and rules and regulations issued thereunder. Further, such law and regulations shall be controlling in all determinations under this definition, inclusive of any provisions and requirements stated thereunder but hereinabove absent.

Section 1.26 LIMITATION YEAR means the 12 month period beginning on January 1 and ending on December 31.

Section 1.27 MATCHING CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Matching

Contributions allocated to such Participant pursuant to Section 3.2 and (ii) the Participant's proportionate share, attributable to his Matching Contribution Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.28 MATCHING CONTRIBUTIONS means contributions made to the Trust Fund by the Employer pursuant to Section 3.2

Section 1.29 NON-HIGHLY COMPENSATED EMPLOYEE means, for any Plan Year, a Participant who is not a Highly Compensated Employee.

Section 1.30 NORMAL RETIREMENT DATE means the first day of the month coincident with or next following the Participant's 60th birthday.

Section 1.31 PARTICIPANT means any Employee who becomes a Participant as provided in Article 2 hereof.

Section 1.32 PERMISSIVE AGGREGATION GROUP means the Required Aggregation Group and each other plan or plans of an Employer that are not required to be included in the Required Aggregation Group, and which, if treated as being part of such group, would not cause such group to fail to meet the requirements of Code Sections 401(a) and 410.

Section 1.33 PLAN means this Retirement Savings Plan for Certain Employees of Vencor and Its Affiliates.

Section 1.34 PLAN YEAR means the 12 month period beginning on January 1 and ending on December 31.

Section 1.35 PRIOR PLAN means the plan of any Employer, the assets of which are merged, in whole or in part, with the Trust Fund.

Section 1.36 PRIOR PLAN EMPLOYER CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) any employer contributions and accumulated earnings allocated to such Participant under the terms of a plan which has been merged into this Plan, and (ii) the Participant's proportionate share attributable to his Prior Plan Employer Contribution Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.37 PRIOR PLAN SALARY REDIRECTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) any pretax deferrals and accumulated earnings allocated to such Participant under the terms of a plan which has been merged into this Plan and (ii) the Participant's proportionate share attributable to his Prior Plan Salary Redirection Account, of the Adjustments, reduced by any distributions from such Account.

Section 1.38 PROFIT SHARING CONTRIBUTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Profit Sharing Contributions allocated to such Participant pursuant to Section 3.3, and (ii) the Participant's proportionate share attributable to his Profit Sharing Contribution Account, of the Adjustments, reduced by any distributions from such account.

Section 1.39 PROFIT SHARING CONTRIBUTIONS mean contributions made to the Trust Fund by the Employer pursuant to Section 3.3.

Section 1.40 REQUIRED AGGREGATION GROUP means

(a) each plan of an Employer in which a Key Employee is a participant; and

(b) each other plan of an Employer which enables any plan in subsection (1) to meet the requirements of Code Sections 401(a)(4) or 410, and

(c) each terminated plan maintained by an Employer within the last five years ending on the determination date for the Plan Year in question and which, but for the fact that it terminated, would be part of a Required Aggregation Group for such Plan Year.

Section 1.41 SALARY REDIRECTION means contributions made to the Trust Fund by the Employer pursuant to Section 3.1.

Section 1.42 SALARY REDIRECTION ACCOUNT means that portion of a Participant's Individual Account attributable to (i) Salary Redirection amounts made on his behalf pursuant to Section 3.1, and (ii) the Participant's proportionate share, attributable to his Salary Redirection Account, of the Adjustments, reduced by any distributions or withdrawals from such Account.

Section 1.43 SERVICE shall be accumulated as follows: (1) prior to January 1, 1997, a year of Service shall be credited for each 12 month period of service from the Employee's date of hire, subject to the rules and limitations set forth in this Plan prior to this restatement, (2) for the service year of an Employee which ends in calendar year 1997, one year of Service shall be credited, and (3) after January 1, 1997, a year of Service shall be credited for each Plan Year during which a Participant has been credited with 1000 or more Hours of Service for the Company or an Employer (whether before or after participation begins) subject to the following:

(a) Years of Service for periods beginning after January 1, 1997 prior to the date an Employee attains age 18 shall not be taken into account in determining that a Participant's vesting percentage pursuant to Section 5.5.

(b) Service for periods beginning after January 1, 1997 shall include periods of employment with any entity acquired by the Company or an Employer, or any entity which operates a facility acquired by the Company or an

Employer, provided that no Employee shall receive credit for more than seven years of Service as a result of periods of employment with said entity and provided that said entity is either listed on Appendix "A" or maintained a plan that has been merged with this Plan. If the entity's records are inadequate to determine Hours of Service for years of employment with the entity, Service will be credited (subject to the seven year limitation) from the Employee's most recent date of hire with the acquired entity, rounded to the nearest whole year.

(c) Years of Service for periods beginning after January 1, 1997 prior to a Break in Service shall not be taken into account until such time as the Employee has completed a year of Service after he returns to the employ of the Employer.

(d) Effective January 1, 1997, if the Employee does not have a nonforfeitable interest in his Employer-provided benefit, and the Employee incurs consecutive Breaks in Service, the Employee's Service prior to the Breaks in Service will be disregarded if the consecutive Breaks in Service equal or exceed the greater of (i) five, or (ii) the Employee's

Service prior to the Break in Service.

(e) Years of Service after five or more consecutive Breaks in Service shall not be taken into account in determining the vesting percentage of a Participant pursuant to Section 5.5 derived from Employer Contributions subject to said vesting schedule made before such five consecutive Breaks in Service.

(f) Service with a predecessor employer will be credited to an employee as Service for the Employer as required pursuant to Code Section 414(a). For purposes of this Subsection, a predecessor employer is an employer who sponsored a plan qualified under Code Section 401(a) which is maintained by the Employer.

(g) An Employee shall be credited with a year of Service for each 12 month period of service prior to December 31, 1997 from the Employee's most recent date of hire with Convalescent Pharmaceutical Services, Inc. or any other employer participating in the CKP Savings and Retirement Plan at the time some of its assets were merged into this Plan, or with Nationwide Care, Inc., for purposes of eligibility under Section 2.1 and vesting under Section 5.5, provided that no Employee shall be credited with more than 5 Years of Service under this Paragraph 1.43(g). For purposes of this Section 1.43(g), if an Employee transferred employment from a partner of a partnership employer participating in the CKP Savings and Retirement Plan to that partnership, his most recent date of hire shall be his most recent date of hire with the partner.

Section 1.44 TOP HEAVY PLAN means any plan under which, as of any determination date (the last day of the preceding Plan Year), the present value of the cumulative accrued benefits under the plan for Key Employees exceeds 60% of the present value of cumulative accrued benefits under the Plan for all Employees. For purposes of this definition the following provisions shall apply:

(a) If such plan is a Defined Contribution Plan, the present value of cumulative accrued benefits shall be deemed to be the market value of all Employee accounts under the plan, other than voluntary deductible Employee contributions. If such plan is a Defined Benefit Plan, the present value of cumulative accrued benefits shall be the lump sum present value determined pursuant to the plan. Moreover, the present value of the cumulative accrued benefits shall be increased by the amount of all Plan distributions made with respect to a current or former employee during the five year period ending on the determination date, including distributions under a terminated plan which, if it had not been terminated, would have been required to be included in a Required Aggregation Group.

(b) A plan shall be considered to be a Top Heavy Plan for any Plan Year if, on the last day of the preceding Plan Year, the above rules were met. For the first Plan Year that the Plan shall be in effect, the determination of whether the Plan is a Top Heavy Plan shall be made as of the last day of such Plan Year.

(c) Each plan of an Employer required to be included in a Required Aggregation Group shall be treated as a Top Heavy Plan if such group is a top heavy group.

(d) With regard to a Participant or former Participant who (i) has not performed any service for an Employer at any time during the five year period ending on the determination date, or (ii) was formerly a Key Employee, but who is not a Key Employee on the determination date, the present value of the cumulative Accrued Benefit for such Participant or former Participant shall not be taken into account for the purposes of determining whether this Plan is a Top Heavy Plan.

(e) This definition shall be interpreted consistent with Code Section 416 and rules and regulations issued thereunder. Further, such law and regulation shall be controlling in all determinations under this definition inclusive of any provisions and requirements stated thereunder but hereinabove absent.

Section 1.45 TOTAL AND PERMANENT DISABILITY OR TOTALLY AND PERMANENTLY DISABLED means a physical or mental condition arising after the original date of employment of the Participant which is expected to totally and permanently prevent him from substantially performing his usual duties with the Employer or from performing like duties for which he is reasonably qualified based upon education, experience and

abilities. The determination by the Committee as to whether a Participant is totally and permanently disabled shall be made (i) on medical evidence by a licensed physician designated by the Committee, (ii) on evidence that the Participant is eligible for disability benefits under any long-term disability plan sponsored by the Employer, or (iii) on evidence that the Participant is eligible for disability benefits under the Social Security Act in effect at the date of disability.

Section 1.46 TRUST AGREEMENT means the agreement entered into between the Sponsoring Employer and the Trustee pursuant to Article 7 hereof.

Section 1.47 TRUST FUND means the trust fund created in accordance with Article 7 hereof.

Section 1.48 TRUSTEE means such individual or corporation as shall be designated in the Trust Agreement to hold in trust any assets of the plan for the purpose of providing benefits under the Plan, and shall include any successor trustee designated thereunder.

Section 1.49 VALUATION DATE means each date on which the U.S. securities trading markets are open on or after January 1, 1997. As of each Valuation Date the Trust Fund shall be valued at fair market value.

Section 1.50 VRSP means the Vencor Retirement Savings Plan as amended from time to time.

ARTICLE 2

PARTICIPATION

Section 2.1 ELIGIBILITY REQUIREMENTS

(a) Effective January 1, 1997, any Employee who has attained

the age of 21 and has remained an Employee until 12 months following the first date on which the Employee logged an Hour of Service, shall be eligible as of the next Entry Date, provided, however, that an Employee who does not meet these rules shall nonetheless be eligible no later than the Entry Date coincident with or next following the [1] completion of 1000 Hours of Service in a 12 consecutive month period and [2] attainment the age of 21. Thereafter, the period shall be the Plan Year in which occurs the anniversary of the date the Employee completes his first Hour of Service.

(b) Any employee in a class of employees that was eligible to participate in The Hillhaven Corporation Deferred Savings Plan ("Affiliate Plan") prior to January 1, 1997 and who was hired prior to January 1, 1997 shall be eligible to participate in this Plan on January 1, 1997 if, at that date, that employee is employed in a capacity defined as an Employee in this Plan. Any Employee hired prior to January 1, 1997 in a class of employees eligible to participate in this Plan prior to January 1, 1997 shall become eligible for the Plan at the next Entry Date coincident with or following the date they meet the eligibility rule applicable to them at their hire date under the Plan (e.g., no age 21 requirement shall apply to those hired prior to January 1, 1997).

(c) For purposes of this Section, in the event that an employee of an entity that is or would be an Employer if the entity adopted this Plan for its employees or of an entity that is a participating employer in the VRSP becomes an Employee as defined in Section 1.14 (either because of a change in employment status or adoption of this Plan by the entity by which he is employed), all periods of service while an employee of the Employer or of an entity which participates in the VRSP, shall be counted for purposes of determining eligibility to participate in the Plan. In all events, this Plan and the VRSP shall be construed so that, at no point in time, does any one Participant have a right to participate in both this Plan and the VRSP.

Section 2.2 PLAN BINDING

Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of this Plan and the Trust Agreement, including all amendments to the Plan and the Trust Agreement made in the manner herein authorized.

Section 2.3 REEMPLOYMENT AND TRANSFERS

Solely for purposes of this Section 2.3, the following rules shall apply:

(a) Termination of employment shall be deemed to occur when an Employee has an interruption in continuity of his employment by the Employer. Such termination may have resulted from retirement, death, voluntary or involuntary termination of employment, unauthorized absence, or by failure to return to active employment with the Employer or to retire by the date on which an authorized leave of absence expired.

(b) If an Employee who was not eligible to become a Participant in the Plan during his prior period of employment is reemployed, he shall be eligible to participate in the Plan

after he has met the requirements of Section 2.1(a), calculated from his original date of hire, unless he has had a one-year Break in Service, in which case Service before such Break in Service shall not be taken into account for purposes of this Section until the Employee has met the requirements of Section 2.1(a) calculated from his date of rehire.

(c) If an Employee who was a Participant in the Plan during his prior period of employment (or who had met the age and service requirements of Section 2.1(a) or (b) but did not remain employed until the applicable Entry Date) is reemployed, he shall be eligible to again become a Participant as of the Entry Date first following his date of rehire.

(d) If an Employee transfers employment from an entity that would be an Employer if it adopted this Plan for the benefit of its employees or from an entity which participates in the VRSP to the Employer (for purposes of this Section, an "Affiliate"), the Employee shall become a Participant under this Plan as of the date of transfer of employment to the Employer, provided he has been employed by the Affiliate, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), calculated from his original date of hire with the Affiliate. If the Employee who transfers employment from an Affiliate to the Employer has not been employed, as of the date of transfer of employment, for the period required in Section 2.1(a) or (b), he shall become a Participant under this Plan upon meeting the eligibility requirements of Section 2.1(a) or (b), counting all past Service with the Affiliate for that purpose.

(e) The Individual Account in this Plan of an Employee who transfers to or from an Affiliate shall remain in this Plan and be eligible for the same Investment Funds as an active Participant. No distribution shall be made of an Individual Account (other than on account of hardship or after age 70 1/2) until and unless the former Employee has terminated service with all Affiliates.

Section 2.4 BENEFICIARY DESIGNATION

Upon commencing participation, each Participant shall designate a Beneficiary on forms furnished by the Committee. Such Participant may then from time to time change his Beneficiary designation by written notice to the Committee and, upon such change, the rights of all previously designated Beneficiaries to receive any benefits under this Plan shall cease. A married Participant may not name as a Beneficiary someone other than the Participant's spouse unless the spouse consents in writing to such other designation, which consent shall be acknowledged by a Plan representative or by a notary public. The consent of the spouse must be limited to a specific Beneficiary and must be obtained each time the Beneficiary is changed. If, at the time of a Participant's death while benefits are still outstanding, his named Beneficiary does not survive him, the benefits shall be paid to his named contingent Beneficiary. If a deceased Participant is not survived by either a named Beneficiary or contingent Beneficiary (or if no Beneficiary was effectively named), the benefits shall be paid in a single sum to the person or in equal parts to the persons in the first of the following classes of successive preference beneficiaries then surviving: the Participant's (i) surviving spouse, unless the spouse

disclaims the benefit, (ii) natural and adopted children, (iii) parents, (iv) brothers and sisters, (v) estate. If the Beneficiary or contingent Beneficiary is living at the death of the Participant, but such person dies prior to receiving the entire death benefit, the remaining portion of such death benefits shall be paid in a single sum to the estate of such deceased Beneficiary or contingent Beneficiary.

Section 2.5 NOTIFICATION OF INDIVIDUAL ACCOUNT BALANCE

After the end of each calendar quarter, or more frequently as determined by the Committee, the Committee shall notify each Participant of the amount of his share in the Adjustments and Contributions for the period just completed, and the new balance of his Individual Account.

ARTICLE 3

CONTRIBUTIONS

Section 3.1 SALARY REDIRECTION

Each Participant may elect to have Salary Redirection made on his behalf by agreeing to salary reduction contributions from cash wages payable via an identity-secure telephonic enrollment system (or in writing, if the telephonic system is impracticable) ("IVR"). A new Participant in this Plan who was, immediately prior to becoming an Employee, a Participant in the VRSP or The Hillhaven Deferred Savings Plan, shall be deemed to have made a salary reduction agreement for this Plan in the same amount as was in effect for that other plan, unless and until the Participant changes his salary reduction agreement by the IVR.

(a) Salary Redirection each payroll period must equal an whole percentage from 1% to 16% of a Participant's Compensation. Salary Redirection shall begin, be increased or revoked effective with the first pay date processed in the month after a Participant has entered into or changed his salary reduction agreement via IVR, provided that such enrollment is concluded before 11:59 p.m. Central Standard Time on the 15th day of the month (the "enrollment deadline"). In the event a Participant does not so elect when initially eligible, he may subsequently elect to have Salary Redirection made on his behalf at any time effective for the first pay date in the month after the Participant has entered into a salary reduction agreement via IVR, subject to the enrollment deadline.

(b) The Employer shall pay to the Trustee any Salary Redirection made on behalf of any Participant as soon as practicable following the end of each regular pay period.

(c) The Employer may amend, to the extent it deems appropriate, a Participant's salary reduction Agreement for any Plan Year or portion thereof if the Employer determines that such amendment is necessary to ensure that a Participant's Annual Additions for any Plan Year might exceed the limitations of Sections 3.4, 3.5, 3.6 or 4.5 the requirements of Code Sections 401(k) or (m) or such other requirements prescribed by law.

Section 3.2 MATCHING CONTRIBUTIONS

(a) As of the end of each calendar quarter, the Employer shall

make a Matching Contribution to the Trust Fund on behalf of eligible Participants. If Matching Contributions are made prior to the end of a calendar quarter, they shall nonetheless be left unallocated until the quarter ends. Matching contributions will be equal to the "applicable percentage" of the eligible Participant's net eligible Salary Redirection.

(b) Net eligible Salary Redirection means Salary Redirection of up to 4% of Compensation, during the period since the last preceding calendar-quarter end, which Salary Redirection has not been withdrawn since the preceding calendar-quarter end. For purposes of calculating net eligible Salary Redirection, withdrawals shall be deemed to have been made from the earliest Salary Redirection not yet withdrawn. Any Matching Contribution shall be allocated to the Matching Contribution Account of each eligible Participant.

(c) For purposes of this Section, the term "eligible Participant" shall mean a Participant who is either (i) actively employed by the Employer or an employer which participates in the VRSP (even if not still an "Employee") as of the end of each calendar quarter, or (ii) died since the end of the preceding calendar quarter, or (iii) retired or became disabled pursuant to Section 5.1, 5.2, or 5.4 since end of the preceding calendar quarter, or (iv) on a Family and Medical Leave Act leave of absence at the end of the calendar quarter.

(d) The "applicable percentage" for each calendar quarter shall be determined based on the number of the Participant's completed years of Service as of March 31 of the Plan Year in which the last day of the quarter occurs, as follows:

YEARS OF SERVICE AS OF MARCH 31 OF PLAN YEAR	PERCENTAGE OF NET ELIGIBLE SALARY REDIRECTION CONTRIBUTIONS UP TO FIRST 4% OF COMPENSATION
At least 1, but less than 2	12 1/2 %
At least 2, but less than 3	25%
At least 3, but less than 4	37 1/2%
4 or more	50%

Section 3.3 PROFIT SHARING CONTRIBUTIONS

As of the last day of each Plan Year, the Employer may make a Profit Sharing Contribution to the Trust Fund. Any such Profit Sharing Contribution shall be allocated to the Profit Sharing Contribution Account of each Participant who (i) has satisfied the eligibility requirements of Section 2.1 (without regard to whether the Participant has made an election pursuant to Section 3.1), (ii) is actively employed by the Company on said date and in a class which is included in the definition of "Employee," and (iii) has been credited with at least 1000 Hours of Service during the Plan Year. Any such Profit Sharing Contribution shall also be allocated to the

Profit Sharing Account of each Former Participant (i) who died

since the end of the preceding Plan Year, or (ii) who retired or became disabled pursuant to Section 5.1, 5.2, or 5.4 since the end of the preceding Plan Year, (iii) who is on a Family and Medical Leave Act leave of absence on the last day of the Plan Year. Any such Profit Sharing Contributions shall be allocated to the Profit Sharing Contribution Accounts of the Participants described in the two immediately preceding sentences in the proportion that each such Participant's Compensation during the Plan Year bears to the total Compensation of all such Participants and Former Participants during such Plan Year.

Section 3.4 NONDISCRIMINATION TEST FOR SALARY REDIRECTION

(a) Periodically as determined by the Committee, the Employer shall check the actual deferral percentages against the tests identified below.

(b) The term "eligible Participants," for purposes of this Section shall mean all Participants under this Plan who are eligible to make Salary Redirection contributions during the Plan Year for which the tests are being made.

(c) The term "actual deferral percentage," means the average of the percentages (calculated separately for each eligible Participant) of Salary Redirection and Qualified Nonelective Contributions on behalf of each eligible Participant divided by the compensation of the eligible Participant.

(d) The term "compensation" for purposes of this Section shall include Compensation is defined in Treasury Regulations (S)1.414(s)-1T(c)(1) and (2) as modified by Treasury Regulation (S)1.414(s)-1T(c)(4), applied uniformly to all employees for any Plan Year or portion thereof during which they are eligible to participate. Compensation for purposes of this Section shall be limited pursuant to Code Section 401(a)(17).

(e) Only one of the following two tests need be satisfied not to have a reduction in Salary Redirection.

Test I - The actual deferral percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual deferral percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by 1.25.

Test II - The excess of the actual deferral percentage for the current Plan Year of the group of Highly Compensate Employees over the actual deferral percentage for the preceding Plan Year of all Non-Highly Compensated Employees is not more than two percentage points, and the actual deferral percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual deferral percentage for

the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by two. If Test II in Subsection 3.5(e) is used in testing other contributions pursuant to that Section, Test II under this Section shall be limited as provided for in Code Section 401(m)(9) and the regulations issued by the Secretary of the

Treasury of notices issued by the Internal Revenue Service. If a multiple use of Test II occurs, such multiple use shall be corrected by reducing either the actual deferral percentage or actual contribution percentage of the Highly Compensated Employee in an amount calculated in the manner provided in Section 3.4(f) or Section 3.5(f).

Notwithstanding the above, the Sponsoring Employer may elect to perform the tests using the Average Actual Deferral Percentage for the current Plan Year for Participants who are Non-Highly Compensated Employees for the current Plan Year rather than using prior Plan Year data, provided that if such election is made for the 1998 or a later Plan Year, the test must continue to be performed based on current Plan Year data until the election is changed in a manner prescribed by the Secretary of the Treasury. Unless the Sponsoring Employer elects to use current Plan Year data, the Participants taken into account in determining the prior Plan Year's Average Actual Deferral Percentage for Non-Highly Compensated Employees are those individuals who were Non-Highly Compensated Employees during the preceding Plan Year, without regard to the Participants' status during the current Plan Year (i.e., a Participant who was a Non-Highly Compensated Employee for the preceding Plan Year is included in the calculation as a Non-Highly Compensated Employee even if the Participant is no longer employed by the Employer or has become a Highly Compensated Employee for the current Plan Year). For the 1997 Plan Year, the determination of who was a Non-Highly Compensated Employee for the 1996 Plan Year shall be made using the definition of Non-Highly Compensated Employee in effect prior to this restatement.

For purposes of these tests, the actual deferral percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Salary Redirection allocated to his accounts under two or more arrangements described in Code Section 401(k) that are maintained by the Company, shall be determined as if such Salary Redirection were made under a single arrangement.

(f) If neither Test I nor Test II is initially satisfied for any Plan Year, the Plan shall nevertheless be deemed to comply with the requirements of Section 401(k)(3)(A)(ii) of the Code for such Plan Year if, before the last day of the following Plan Year, the amount of any excess contribution (and any income thereon) is distributed to Participants who are Highly Compensated Employees. The amount to be returned shall be determined as follows:

[i] Calculate the dollar amount that would be returned to each Highly Compensated Employee if the Average Deferral Percentage of Highly Compensated Employees were reduced by returning Salary Redirection contributions to such Participants, beginning with those Highly Compensated Employees' with the highest Actual Deferral Percentage and only to the extent necessary to meet either test above.

[ii] Determine the total of the dollar amounts calculated in Step [i], and return that amount to Highly Compensated Employees in accordance

with Steps [iii] and [iv] below by distributing Salary Redirection contributions as Excess Contributions. Excess Contributions, adjusted for any income or loss allocable thereto, may be distributed before the end of the following Plan Year to Participants on whose behalf such Excess Contributions were made for such preceding Plan Year. Excess Contributions shall be adjusted for income or loss, and the income or loss allocable to Excess Contributions shall be determined by multiplying the income or loss allocable to the Participant's Salary Redirection contributions for the Plan Year by a fraction, the numerator of which is the Excess Contribution on behalf of the Participant for the preceding Plan Year and the denominator of which is the value of the Participant's Salary Redirection Account on the last day of the preceding Plan Year.

[iii] Reduce the Salary Redirection contributions of the Highly Compensated Employee with the highest dollar amount of Salary Redirection contributions by the amount required to cause that Highly Compensated Employee's Salary Redirection contributions to equal the dollar amount of the Salary Redirection contributions of the Highly Compensated Employee with the next highest dollar amount of Salary Redirection Contributions. However, if a lesser reduction would equal the total remaining excess contributions to be distributed, the lesser reduction amount is distributed.

[iv] If the total amount distributed is less than the total excess contributions from Step [ii], Step [iii] is repeated.

If it is necessary to reduce the matched Salary Redirection, the Participant shall nevertheless receive from the Plan a distribution equal to the vested portion of the Employer Matching Contribution plus any income thereon that would have been allocated to him had such reduction in contribution not been necessary. Any remaining portion of the Matching Contribution shall be forfeited in accordance with the provisions of Section 5.5.

Section 3.5 NONDISCRIMINATION TEST FOR OTHER CONTRIBUTIONS

(a) Periodically as determined by the Committee, the Employer shall check the actual contribution percentages against the tests identified below.

(b) The term "eligible Participants," for purposes of this Section, shall mean all Participants under this Plan who are eligible to make Salary Redirection contributions, and receive Matching Contributions during the Plan Year for which the tests are being made.

(c) The term "actual contribution percentage," means the average of the following percentages (calculated separately for each eligible Participant): Matching Contributions (and Salary Redirection to the extent elected by the Employer and permitted by Regulations under Code Section 401(m)) on behalf of each eligible Participant divided by compensation of the eligible Participant.

(d) The term "compensation" for purposes of this Section shall include compensation as defined in Treasury Regulations (S)1.414(s)-1T(c)(1) and (2) as modified by Treasury Regulation (S)1.414(s)-1T(c)(4), applied uniformly to all employees for any plan year or portion thereof during which they are eligible to participate. Compensation for purposes of this Section shall be limited pursuant to Code Section 401(a)(17).

(e) Only one of the following two test need be satisfied not to have a reduction in contribution tested pursuant to this Section.

Test I - The actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by 1.25.

Test II - The excess of the actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees over the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees is not more than two percentage points, and the actual contribution percentage for the current Plan Year of the group of Highly Compensated Employees is not more than the actual contribution percentage for the preceding Plan Year of all Non-Highly Compensated Employees, multiplied by two. If Test II in Subsection 3.4(e) is used in testing Salary Redirection pursuant to that Section, Test II under this Section shall be limited as provided for in Code Section 401(m)(9) and the regulations issued by the Secretary of the Treasury of notices issued by the Internal Revenue Service. If a multiple use of Test II occurs, such multiple use shall be

corrected by reducing either the actual deferral percentage or actual contribution percentage of the Highly Compensated Employee in an amount calculated in the manner provided in Section 3.4(f) or Section 3.5(f).

Notwithstanding the above, the Sponsoring Employer may elect to perform the tests using the Average Contribution Percentage for the current Plan Year for Participants who are Non-Highly Compensated Employees for the current Plan Year rather than using prior Plan Year data, provided that if such election is made for the 1998 or a later Plan Year, the test must continue to be performed based on current Plan Year data until the election is changed in a manner prescribed by the Secretary of the Treasury. Unless the Sponsoring Employer elects to use current Plan Year data, the Participants taken into account in determining the prior Plan Year's Average Contribution Percentage for Non-Highly Compensated Employees are those individuals who were Non-Highly Compensated Employees during the preceding Plan Year, without regard to the Participants' status during the current Plan Year (i.e., a Participant who was a Non-Highly Compensated Employee for the preceding Plan Year is

included in the calculation as a Non-Highly Compensated Employee even if the Participant is no longer employed by the Employer or has become a Highly Compensated Employee for the current Plan Year). For the 1997 Plan Year, the determination of who was a Non-Highly Compensated Employee for the 1996 Plan Year shall be made using the definition of Non-Highly Compensated Employee in effect prior to this restatement.

For purposes of these tests, the actual contribution percentage for any Participant who is a Highly Compensated Employee for the Plan Year and who is eligible to have Matching Contributions allocated to his accounts under two or more arrangements described in Code Section 401(k) that are maintained by the Company, shall be determined as if such Matching Contributions were made under a single arrangement.

(f) If neither Test I nor Test II is initially satisfied for any Plan Year, the Plan shall nevertheless be deemed to comply with the requirements of Section 401(m) of the Code for such Plan Year if, before the last day of the following Plan Year, the amount of any excess contribution (and any income thereon) is distributed to Participants who are Highly Compensated Employees or if forfeitable, is forfeited. The amount to be reduced shall be determined as follows:

[i] Calculate the dollar amount by which each Highly Compensated Employee's Employer Matching contributions must be reduced to pass wither test, beginning with those Highly Compensated Employees with the highest Contribution Percentage and only to the extent necessary to meet either test above.

[ii] Determine the total of the dollar amounts calculated in Step [i], and reduce Highly Compensated Employees' Employer Matching contributions in accordance with Steps [iii] and [iv] below.

[iii] Reduce the Employer Matching contributions of the Highly Compensated Employee with the highest dollar amount of Employer Matching contributions by the amount required to cause that Highly Compensated Employee's Employer Matching contributions to equal the dollar amount of the Employer Matching contributions of the Highly Compensated Employee with the next highest dollar amount of Employer Matching contributions. However, if a lesser reduction would equal the total remaining excess contributions to be distributed, the lesser reduction amount is distributed.

[iv] If the total amount distributed is less than the total excess contributions from Step [ii], Step [iii] is repeated.

If it is necessary to reduce the Employer Matching Contribution, the Participant shall nevertheless receive from the Plan a distribution equal to the vested portion of the Employer Matching Contribution plus any income thereon that would have been allocated to him had such reduction in contribution not been necessary. Any remaining portion of

the Matching Contribution shall be forfeited in accordance with the provisions of Section 5.5.

(g) This Section shall be governed by Code Section 401(m) and any rules or regulations issued pursuant thereto, which may include coordination and/or combination with allocations subject to Section 401(k) in accordance with Treasury Regulation Section 1.401(m)-2.

Section 3.6 MAXIMUM INDIVIDUAL DEFERRAL

A Participant shall not be permitted to have his Employer redirect an amount in excess of $9,500 in any calendar year pursuant to the provisions of Section 3.1, including contributions to any other plan of an Employer which are made pursuant to Code Section 402(a)(8). The $9,500 limitation shall be adjusted in accordance with cost-of-living adjustments made by the Secretary of the Treasury pursuant to Code Section 402(g)(5). If any amount is redirected pursuant to Section 3.1 in excess of this limit (as adjusted), or if a Participant notifies the Committee, in writing, by March 1 following the close of the taxable year of the amount contributed in excess of this limit (as adjusted) to all plans pursuant to Code Section 402(a)(8), such amount shall be deemed an "excess deferral" and the Committee shall direct the Trustee to distribute to the Participant (not later than the April 15 following the calendar year in which the excess deferral was made) the amount of the excess deferral plus any income allocable to such amount.

Section 3.7 MISTAKE OF FACT

If due to a mistake of fact, Employer Contributions to the Trust Fund for any Plan Year exceed the amount intended to be contributed, notwithstanding any provision to the contrary, the Employer, as soon as such mistake of fact is discovered, shall notify the Trustee. The Employer shall direct that the Trustee return such excess to the Employer, provided such return is made within one year of the date on which the Employer made the contribution.

Section 3.8 QUALIFIED NONELECTIVE CONTRIBUTIONS

The Employer may, as of the end of any calendar quarter, make a Qualified Nonelective Contribution to the Trust Fund on behalf of any Participant with a Prior Plan Employer Contribution Account or Prior Plan Salary Redirection Account in an amount equal to the surrender charges assessed by the insurer which held the assets in those accounts in the plan which was merged into this Plan. Such Qualified Nonelective Contributions shall be added to the Salary Redirection Accounts of those Participants in amounts equal to the allocation of the surrender charges to the Participant's combined Prior Plan Employer and Prior Plan Salary Redirection Accounts, shall be 100% vested when made, subject to the same distribution rules as Salary Redirection Contribution, and shall be tested for nondiscrimination as Salary Redirection Contributions in accordance with the provisions of Section 3.4.

Section 3.9 UNIFORMED SERVICES EMPLOYMENT AND REEMPLOYMENT RIGHTS ACT OF 1994 ("USERRA")

Effective December 12, 1994, notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

Section 414(u) generally provides that an employer maintaining a plan shall be treated as meeting the requirements of USERRA only if an employee reemployed under USERRA is treated as not having incurred a break in service because of the period of military service, the employee's military service is treated as service with the employer for vesting and benefit accrual purposes, the employee is permitted to make additional elective deferrals and employee contributions in an amount not exceeding the maximum amount the employee would have been permitted or required to contribute during the period of military service if the employee had actually been employed by the employer during that period ("make-up contributions"), and the employee is entitled to any accrued benefits that are contingent on employee contributions or elective deferrals to the extent the employee pays the contributions or elective deferrals to the plan. Make-up contributions must be permitted during the period that begins on the date of reemployment and continues for five years or, if less, three times the period of military service. With respect to make-up contributions, the employer must make matching contributions

that would have been required if the make-up contributions had actually been made during the period of military service.

Section 414(u) provides that an employee is treated as receiving compensation from the employer during the period of military service equal to the compensation the employee otherwise would have received from the employer during that period, or, if the compensation the employee otherwise would have received is not reasonably certain, the employee's average compensation from the employer during the period immediately preceding the period of military service. For purpose of (S) 414(u), USERRA is not treated as requiring the crediting of earnings to an employee with respect to any contribution before the contribution is actually made or requiring any allocation of forfeitures to the employee for the period of military service.

Section 414(u) generally provides that a contribution that is made by an employer or employee to an individual account plan or by an employee to a contributory defined benefit plan, and that is required under USERRA, is taken into account for purposes of the limitations of Section 402(g), 402(h), 403(b), 404(a), 404(h), 408, 415 or 457 in the year to which the contribution relates, not the year in which the contribution is made. In addition, Section 414(u) provides that a plan is not treated as failing to meet the requirements of Section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k)(3), 408(k)(6), 408(p), 410(b), or 416 because of the contribution (or the right to make the contribution).

ARTICLE 4

ALLOCATION TO INDIVIDUAL ACCOUNTS

Section 4.1 INDIVIDUAL ACCOUNTS

The Committee shall establish and maintain an Individual Account in the name of each Participant to which the Committee shall credit all amounts allocated to each such Participant pursuant to Article 3 and the following Sections of this Article.

Section 4.2 INVESTMENT OF ACCOUNTS

(a) There shall be established the following Investment Funds within the Trust Fund:

(1) INTEREST INCOME FUND - A fund generally invested in investment contracts with banks and insurance companies to generate interest income returns above the rates earned by money market funds, while generally maintaining a stable principal value. This fund may also be referred to as the Stable Value Fund.

(2) BALANCED FUND - A fund consisting of both fixed income obligations of the United States Government and its agencies and of companies other than the Sponsoring Employer to provide protection of principal consistent with an attractive rate of return, and equity investments other than the common stock of the sponsoring employer.

(3) GROWTH FUND - A fund consisting primarily of common stocks with an objective of capital growth over both the intermediate and long-term.

(4) AGGRESSIVE GROWTH FUND - a fund consisting primarily of common stocks of companies that are early in their life cycle and which have the potential to grow significantly, with the objective to provide long term capital appreciation without regard to current income.

(5) COMPANY STOCK FUND - solely for Participants who became eligible to participate in the VRSP effective January 1, 1997, a fund consisting primarily of shares of common stock of the Sponsoring Employer and dividends and distributions attributable to said common stock, plus temporary investments held pending purchase of additional shares of common stock of the Sponsoring Employer, which fund shall be subject to the same provisions,

terms and conditions as the Company Stock Fund available under the VRSP.

(b) Each Participant shall have the right to direct the Committee to invest the cumulative balance in his Individual Account in increments of 10% (25% if elections made prior to January 1, 1997, in which case they continue until a change is made by the Participant) in the Investment Funds provided in Section 4.2(a). Such direction shall be effected as soon as practicable after the end of the month, provided the Participant gives the direction by identity-secured telephonic instructions (or in writing if telephonic instructions are impracticable) no later than the 15th day of the month. Neither the Trustee nor any other Fiduciary shall be responsible for investment losses resulting from a Participant's exercise of investment discretion, in accordance with ERISA Section 404(c).

(c) A Participant who does not make any election under this Section shall have the Individual Account invested in the Stable Value Fund. A Participant who began participation in the Plan prior to January 1, 1997 or who has funds transferred to this Plan from The Hillhaven Deferred Savings Plan shall have assets formerly invested in the Short-Term Investment or Bond Fund transferred to the

Stable Value Fund, those formerly in the U.S. Balanced Fund to the Balanced Fund, those formerly in the Large Stock or International Fund to the Growth Fund, and those formerly in the Small Stock Fund to the Aggressive Growth Fund.

(d) Notwithstanding Section 4.2(b) and (c) above, a Participant who became eligible to participate int he VRSP effective January 1, 1997 shall have the portion of his Individual Account attributable to his Profit Sharing Contribution Account and Matching Contribution Account invested in the Company Stock fund pending the spinoff of those Accounts to the VRSP.

Section 4.3 VALUATION OF ACCOUNTS

(a) INDIVIDUAL ACCOUNT. As of each Valuation Date, the Committee shall determine the fair market value of the Individual Account of each Participant for each Investment Fund in which the Individual Account is invested as follows:

(1) The value of the Individual Account of each Participant as of the last Valuation Date;

(2) Minus the amount of any withdrawals and distributions made from such account since the last Valuation Date;

(3) Plus any contributions to the Participant's Salary Redirection Account since the last Valuation Date;

(4) Plus any allocation to the Participant's Matching Contribution Account since the last Valuation Date;

(5) Plus any allocation to the Participant's Profit Sharing Account since the last Valuation Date;

(6) Plus the Individual Account's proportionate share of any investment earnings allocated to each Investment Fund held within the Individual Account since the last Valuation Date;

(7) Minus the Individual Account's proportionate share of any investment losses allocated to each Investment Fund held within the Individual Account since the last Valuation Date.

(b) INVESTMENT EARNINGS OR LOSSES. The investment earnings (or losses, if such computation is negative) from the Investment Funds shall mean the difference between the unit price of any Investment Fund from one business day to the next, and any net gain or loss on non-mutual fund investments in an Investment Fund, as reflected by interest payments, dividends, realized and unrealized gains and losses on securities, other investment transactions and expenses paid from the fund.

(c) ALLOCATION OF INVESTMENT EARNINGS OR LOSSES. The investment earnings or losses from the Trust Fund shall be allocated to the Individual Account of each Participant invested in the respective Investment Fund in the ratio of "A" divided by "B" where "A" is an amount determined pursuant to Section 4.3(d) for the portion of the Individual Account of each Participant invested in the respective Investment Fund and "B" is an amount determined pursuant to Section 4.3(d) for the portion of the Individual Account of all

Participants invested in the respective Investment Fund.

(d) DETERMINATION OF RATIO. For purposes of determining the ratio is Section 4.3(c), the amounts shall be determined as follows:

(1) the value of the portion of such Individual Account(s) in the Investment Fund as of the last Valuation Date;

(2) Minus withdrawals and benefit payments to or on behalf of Participants from the portion of such Individual Account(s) in the Investment Fund since the last Valuation Date.

Section 4.4 TRUSTEE AND COMMITTEE JUDGMENT CONTROLS

In determining the fair market value of the Trust Fund and of Individual Accounts, the Trustee shall exercise its best judgment, and all such determinations of value (in the absence of bad faith) shall be binding upon all Participants and their beneficiaries.

Section 4.5 MAXIMUM ADDITIONS

Anything herein to the contrary notwithstanding, the total Annual Additions of a Participant for any Limitation Year when combined with any similar annual additions credited to the Participant for the same period from another qualified Defined Contribution Plan maintained by an Employer, shall not exceed the lesser of the amounts determined pursuant to Section 4.5(a) or (b).

(a) $30,000 or, if larger, 25% of the dollar limitation in effect under Code Section 415(b)(1)(A) determined by the Commissioner of Internal Revenue as of January 1 of each year to apply to the Limitation Year ending with or within that calendar year; or

(b) 25% of the Participant's compensation received from the Employer for such Limitation Year, as determined pursuant to Section 415 of the Code.

(c) In the event a Participant is covered by one or more Defined Contribution Plans maintained by an Employer, the maximum annual additions as noted above shall be decreased in the last Defined Contribution Plan maintained by an Employer in which he participated to ensure that all such plans will remain qualified under the Code.

Section 4.6 CORRECTIVE ADJUSTMENTS

In the event that corrective adjustments in the Annual Addition to any Participant's Individual Account are required as the result of a reasonable error in estimating a Participant's compensation, the corrective adjustments shall be made pursuant to and in the order of the subsections in this Section.

(a) The portion of the Participant's unmatched Salary Redirection made pursuant to Subsection 3.1(a) shall be returned by distribution to the Participant, with earnings thereon. Any amount so returned shall be disregarded for purposes of the tests in Sections 3.4 and 3.5.

(b) The portion of the Participant's matched Salary Redirection made pursuant to Subsection 3.1(a) and his Matching

Contributions shall be proportionally reduced to insure compliance with Section 4.5. Any affected Salary Redirection will be distributed to the Participant and shall not be considered

for purposes of the tests in Sections 3.4 and 3.5. Any affected Matching Contributions shall be used to reduce future Matching Contributions.

(c) The Participant's Profit Sharing Contribution shall be reduced to insure compliance with Section 4.5. Any such amount reduced shall be allocated as of the end of the next Plan Year among the Profit Sharing Contribution Accounts of all other Participants in the same manner as is indicated in Section 3.3.

Section 4.7 DEFINED CONTRIBUTION AND DEFINED BENEFIT PLAN FRACTION

If a Participant is a participant in a Defined Benefit Plan maintained by an Employer, the sum of his defined benefit plan fraction and his defined contribution plan fraction for any Limitation Year may not exceed 1.0.

(a) For purposes of this Section, the term "defined contribution plan fraction" shall mean a fraction the numerator of which is the sum of all of the Annual Additions of the Participant under this Plan and any other Defined Contribution Plan maintained by an Employer as of the close of the Limitation Year and the denominator of which is the sum of the lesser of the following amounts determined for such Limitation Year and for each prior Limitation Year of employment with an Employer:

(1) the product of 1.25 multiplied by the dollar limitation in effect under Section 415(c)(1)(A) of the Code; or

(2) the product of 1.4 multiplied by the amount which may be taken into account under Code Section 415(c)(1)(B) with respect to each individual under the Plan for such Limitation Year.

(b) For purposes of this Section, the term "defined benefit plan fraction" shall mean a fraction, the numerator of which is the Participant's projected annual benefit (as defined in the Defined Benefit Plan) determined as of the close of the Limitation Year and the denominator of which is the lesser of:

(1) the product of 1.25 multiplied by the dollar limitation in effect pursuant to Section 415(b)(1)(A) of the Code for such Limitation year; or

(2) the product of 1.4 multiplied by the amount which may be taken into account pursuant to Section 415(b)(1)(B) of the Code with respect to each individual under the Plan for such Limitation year.

(c) The limitation on aggregate benefits from a Defined Benefit Plan and a Defined Contribution Plan which is contained in Section 2004 of ERISA,

as amended, shall be complied with by a reduction (if necessary) in the Participant's benefits under the Defined Benefit Plan.

ARTICLE 5

DISTRIBUTIONS

Section 5.1 NORMAL RETIREMENT

When a Participant lives to his Normal Retirement Date and retires, he shall become entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date the distribution check is prepared.

Section 5.2 LATE RETIREMENT

A Participant may continue his employment past his Normal Retirement Date on a year to year basis. He shall continue to be an active Participant under the Plan. Upon his actual retirement, he shall become entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date of distribution check is prepared.

Section 5.3 DEATH

If a Participant dies while an active Participant under the Plan, his Beneficiary shall be entitled to the full value of his Individual Account as soon as practicable after the distribution forms are completed (or their time for completion has elapsed), at a value determined as of the date of distribution check is prepared.

Section 5.4 DISABILITY

When it is determined that a Participant is Totally and Permanently Disabled, the Committee shall certify such fact to the Trustee and such Disabled Participant shall be entitled to receive the full value of his Individual Account as soon as practicable after the distribution forms are completed, at a value determined as of the date of distribution check is prepared.

Section 5.5 TERMINATION OF EMPLOYMENT

(a) Subject to Section 5.5(j) below, upon termination of employment for any reason (other than Normal Retirement, Late Retirement, Disability Retirement or Death), a Participant shall be entitled to a benefit equal to the vested portion (as determined in this Section) of the balance of his Individual Account as soon as practicable after the distribution forms are completed, at a value determined as of the date of distribution check is prepared.

(b) A Participant shall always be 100% vested in the balance of his Salary Redirection Account, and Prior Plan Salary Redirection Account. A Participant shall be 100% vested in all amounts in his Prior Plan Employer Contribution Account that were transferred from the CKP Savings and Retirement

Plan (the "CKP Plan"). A Participant who had three years of service under the CKP Plan and whose plan benefit was transferred from that plan to this Plan shall be 100% immediately vested in all accounts under this Plan. All participants in the CKP Plan who do not have three Years of Service on the date a portion of the CKP Plan was merged into this Plan, and all participants employed by Nationwide Care, Inc., regardless of their Years of Service, shall be subject to the vesting schedule contained in Section 5.5 of this Plan for purposes of Employer Contributions made to this Plan.

(c) A Participant shall be vested in the balance attributable to his Matching and Profit Sharing Contribution Accounts based on years of Service as of his date of termination, in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3 years	0%
3 but less than 4	20%
4 but less than 5	40%
5 but less than 6	60%
6 but less than 7	80%
7 years or more	100%

(d) Notwithstanding the above, a Participant who has a Prior Plan Employer Contribution Account from The Hillhaven Corporation Deferred Savings Plans, shall be vested in the balance attributable to such account based on years of Service as of his date of termination, in accordance with the following schedule:

Years of Service	Vested Percentage
Less than 3 years	0%
3 but less than 4	30%
4 but less than 5	40%
5 but less than 6	60%
6 but less than 7	80%
7 years or more	100%

In addition, any Participant who had an account in The Hillhaven Corporation Deferred Savings Plan and who terminated employment during the 1996 calendar year shall be 100% vested in the Participant's Individual

Account transferred to this Plan from The Hillhaven Corporation Deferred Savings Plan.

(e) Notwithstanding the above, a Participant who attains Normal Retirement Age or dies or becomes Totally and Permanently Disabled, while employed by an Employer, shall be fully vested in his Individual Account under the Plan.

(f) A Participant who terminates employment pursuant to this Section with a zero percent vested percentage shall be deemed to have received a distribution on the date he terminates employment. If a Former Participant receives a distribution of the vested portion of his Individual Account prior to incurring five consecutive Breaks in Service or said Former Participant is zero percent vested in his Individual Account, the non-vested balance of such

terminated Participant's Individual Account shall be forfeited as of the date he receives or is deemed to receive said distribution. If a Participant who has received a distribution (or deemed distribution) is later rehired before the period described in subsection 5.5(h) below, the Participant need not repay the distributed amount, but his Account shall automatically have the forfeited amount restored to it at the earlier of (1) the last day of the Plan Year in which rehired, or (2) the date of a subsequent termination of employment. Restoration of a forfeiture will come from forfeitures in the year in which he is reemployed and, to the extent such forfeitures are not sufficient, from a special Employer Contribution. Upon a subsequent termination of employment prior to the Participant becoming 100% vested, the gross distribution shall be determined by multiplying the vested percentage at the subsequent termination by the account balance then actually restored to the Plan, plus the distribution previously received. The amount to be distributed to the Participant shall be the vested percentage of the adjusted account, minus the amount previously distributed.

(g) The non-vested balance of the Individual Account of a terminated Participant shall be forfeited as of the last day of the Plan Year in which such terminated Participant incurs five consecutive Breaks in Service if the Participant is vested in any portion of his Individual Account and does not receive a distribution prior to incurring five consecutive Breaks in Service.

(h) A terminated Participant who is reemployed and again becomes a Participant after incurring five or more consecutive Breaks in Service shall not have any amount forfeited pursuant to this Section restored to his Individual Account.

(i) Any Matching Contributions and Profit Sharing Contributions forfeited will be first used to reduce Matching Contributions pursuant to Section 3.2.

(j) Notwithstanding anything to the contrary in this Section 5.5 or in Section 5.6(a), no portion of a Participant's Individual Account shall be distributed to him until the participant has separated from service within the meaning of Code Section 401(k)(2)(B), unless the distribution is in connection with an event described in Code Section 401(k)(10) and the Treasury Regulations under that Section.

Section 5.6 COMMENCEMENT OF BENEFITS

(a) Any benefits payable under this Article shall be paid as soon as reasonably possible following the actual date of severance, at the value determined as of the Valuation Date coincident with or immediately preceding receipt of properly completed distribution forms from the Participant, subject to the Participant's consent if his actual date of severance is prior to Normal Retirement Age and subject to Subsection 5.7(a). In no event, however, shall payment begin beyond 60 days after the last day of the Plan Year in which occurs the latest of (i) the Participant's reaching Normal Retirement Age; (ii) the 10th anniversary of the date the Employee became a Participant; or (iii) termination of the Participant's employment. Notwithstanding anything in the Plan to the contrary and notwithstanding the Participant's

lack of consent, benefits under this Plan shall be paid as soon as reasonably possible following the later of the Participant's actual date of severance or his Normal Retirement Date.

(b) Except as required in this Section for a Participant who has an Individual Account to which Section 5.7(b) or Section 5.6(c) applies, a Participant may defer distribution to a subsequent date. If the Participant does not consent to a distribution as provided above, such distribution shall be made based on the value of the Individual Account as of the date the check for the distribution is prepared and shall be delivered as soon as reasonably practical after notice to the Committee of the election to receive a distribution.

(c) Notwithstanding any other provisions of the Plan, the payment of a Participant's benefits hereunder shall begin by payment of a lump sum of the entire Accounts of the Participant no later than the April 1 following the calendar year in which the Participant has both attained age 70 1/2 and has retired, provided that for 5% owners as defined in Section 416 of the Code, distribution must begin by April 1 following the calendar year in which the Participant attains age 70 1/2, regardless of whether the Participant has retired; and further provided that, if the Internal Revenue Service in regulations or other pronouncements provides that eliminating the automatic distribution from this Plan beginning after age 70 1/2 for a non-5% owner who has not yet separated from service is a prohibited cut-back of benefits, then a Participant shall have the option to take a lump sum distribution even while employed, at the April 1 following attainment of age 70 1/2, if the Participant so elects

in writing, and, if so elected, shall receive a distribution on or before December 31 of the year after attainment of age 70 1/2, and again each year thereafter while still employed, shall receive a similar distribution of all amounts accrued in Accounts of the Participant since the last such distribution.

(d) Notwithstanding anything in the Plan to the contrary, any benefit payable to an alternate payee pursuant to a qualified domestic relations order, as defined in Section 414(p) of the Code, shall be paid as soon as administratively possible following the determination that the order meets the requirements of Section 414(p) of the Code.

(e) Notwithstanding anything in the Plan to the contrary, in the event a Participant terminates employment for any reason and recommences employment prior to distribution of his entire vested account in the Plan, the undistributed portion of his vested account shall remain in the Plan until his account again becomes distributable due to a subsequent termination.

Section 5.7 METHODS OF PAYMENT

(a) A Participant or Beneficiary shall elect a distribution of the Individual Account in a single lump sum payment in cash as provided hereinafter. Except as provided in Section 5.7(c) or Section 5.11, no other manner of distribution shall be provided. The request by the Participant or the Beneficiary shall be in writing and shall be filed with the Committee. The Committee may not require a distribution without the consent of the Participant prior to his reaching

Normal Retirement Age or, if the Participant is deceased, without the consent of his spouse, if the spouse is living and if the spouse is his Beneficiary, unless the vested value of the Individual Account is $3,500 or less. If the vested value of the Participant's Individual Account is $3,500 or less, the benefits payable will be paid as soon as reasonably possible following the actual date of severance, notwithstanding lack of consent. If the vested value of the Participant's Individual Account has been more than $3,500 at the time of any distribution, the value the Participant's Individual Account will be deemed to be more than $3,500 at the time of any subsequent distribution for purposes of the consent requirements of this Section.

(b) If the Participant dies before distribution occurs, the Participant's entire interest will be distributed no later than five years after the Participant's death, except, if the designated Beneficiary is the Participant's surviving spouse, the distribution must be made no later than the date on which the Participant would have attained age 65.

(c) Notwithstanding anything in this Section to the contrary, in the case of a Participant who has a Prior Plan Salary Redirection Account or a Prior Plan

Employer Contribution Account, the Participant may take distribution of his Prior Plan Salary Redirection Account or Prior Plan Employer Contribution Account at such time or in such other form as was provided in the plan (as in effect as of the date of transfer) from which the Prior Plan Salary Redirection Account or Prior Plan Employer Contribution Account was transferred.

Section 5.8 BENEFITS TO MINORS AND INCOMPETENTS

If any person entitled to receive payment under the Plan shall be a minor, the Committee, in its discretion, may dispose of such amount in any one or more of the ways specified in Subsections (a) through (c) of this Section.

(a) By payment thereof directly to such minor;

(b) By application thereof for benefit of such minor;

(c) By payment thereof to either parent of such minor or to any adult person with whom such minor may at the time be living or to any person who shall be legally qualified and shall be acting as guardian of the person or the property of such minor; provided only that the parent or adult person to whom any amount shall be paid shall have advised the Committee in writing that he will hold or use such amount for the benefit of such minor.

In the event that it shall be found that person entitled to receive payment under the Plan is physically or mentally incapable of personally receiving and giving a valid receipt for any payment due (unless prior claim therefor shall have been made by a duly qualified committee or other legal representative), such payment may be made to the spouse, son, daughter, parent, brother, sister or other person deemed by the Committee to have incurred expense for such person otherwise entitled to payment.

Section 5.9 UNCLAIMED BENEFITS

(a) The Plan does not require either the Trustee or the Committee

to search for, or ascertain the whereabouts of, any Participant or Beneficiary. The Committee, by certified mail addressed to his last known address of record with the Committee or the Employer, shall notify any Participant, or Beneficiary, that he is entitled to a distribution under this Plan. If the Participant, or Beneficiary, fails to claim his distributive share or make his whereabouts known in writing to the Committee within six months from the date of mailing of the notice, or before the termination or discontinuance of this Plan, whichever should first occur, the Committee shall thereafter treat the Participant's or Beneficiary's unclaimed payable Account as a Forfeiture. A Forfeiture under this Section shall occur when the Committee determines that the Participant or Beneficiary cannot be located, but not earlier than the

end of the notice period, or if later, the earliest date applicable Treasury regulations would permit the Forfeiture.

(b) If a Participant or Beneficiary who has incurred a forfeiture of his Account under this Section makes a claim, at any time, for his forfeited Account, the Committee shall restore the Participant's or Beneficiary's forfeited Account to the same dollar amount as the dollar amount of the Account forfeited, unadjusted for any gains or losses occurring subsequent to the date of the forfeiture. The Committee shall make the restoration during the Plan Year in which the Participant or Beneficiary makes the claim, first from the amount, if any, of forfeitures the Administrator otherwise would allocate for the Plan Year, then from the amount, if any, of the Trust net income or gain for the Plan Year and then from the amount, or additional amount, the Employer shall contribute to enable the Committee to make the required restoration. The Committee shall direct the Trustee to distribute the Participant's or Beneficiary's restored Account to him not later than 60 days after the close of the Plan Year in which the Committee restores the forfeited Account. The forfeiture provisions of this Section shall apply solely to the Participant's or to the Beneficiary's Account derived from Employer contributions.

Section 5.10 PARTICIPANT DIRECTED ROLLOVERS

(a) This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

(b) For purposes of this Section, an eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of 10 years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the

exclusion for net unrealized appreciation with respect to employer securities).

(c) For purposes of this Section, an eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan

described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

For purposes of this Section, a distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(d) A direct rollover is a payment by the plan to the eligible retirement plan specified by the distributee.

Section 5.11 JOINT AND SURVIVOR OPTIONS

(a) This Section shall only apply to a Participant who has a Prior Plan Employer Contribution Account and/or a Prior Plan Salary Redirection Account that was transferred as a result of a plan merger from a plan that provided for an annuity form of distribution.

(b) QUALIFIED JOINT AND SURVIVOR ANNUITY. Except as otherwise provided below, unless an optional form of benefit is selected pursuant to a qualified election within the 90 day period ending on the date benefit payments would commence, a Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account will be paid in the form of a qualified joint and survivor annuity, and an unmarried Participant's benefit shall be paid in the form of a life annuity unless otherwise elected by the Participant. A qualified joint survivor annuity will not be applicable and this Section shall not apply if the following conditions are met:

(1) The Participant's vested Individual Account is payable in full, on the death of the Participant, to the Participant's surviving spouse, or if there is no surviving spouse, or if the surviving spouse has previously consented to the designation of a non-spouse Beneficiary in the manner prescribed under this Section, and

(2) Such Participant does not elect a payment of benefits in the form of a life annuity, and

(3) With respect to such Participant, such Plan is not a direct or indirect transfer of a Plan which is described in clause (i) or (ii) of Code Section 401(a)(11)(B), or

(4) If the distribution is subject to the terms and conditions contained in Section 5.7 concerning the distribution of vested Individual Accounts of $3,500 or less.

(b) QUALIFIED PRERETIREMENT SURVIVOR ANNUITY. Except as otherwise provided in this Subsection, unless an optional form of benefit has been selected within the election period pursuant to a qualified election, if a Participant dies before benefits have commenced, then the Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account shall be applied toward the purchase of an annuity for the life of the surviving spouse. Benefits will not be required to be paid in the form of a preretirement survivor annuity if the following conditions are met:

(1) The Participant's vested Individual Account is payable in full, on the death of the Participant, to the Participant's surviving spouse, or if there is no surviving spouse, or if the surviving spouse has previously consented to the designation of a non-spouse Beneficiary in the manner prescribed under this Section, and

(2) Such Participant does not elect a payment of benefits in the form of a life annuity, and

(3) With respect to such Participant, such Plan is not a direct or indirect transfer of a Plan which is described in clause (i) or (ii) of Section 401(a)(11)(b) of the Code, and

(4) If the distribution is subject to the terms and conditions contained in Section 5.7 concerning the distribution of vested Individual Accounts of $3,500 or less.

(c) ELECTION PERIOD shall mean, for purposes of this Section, the period which begins on the first day of the Plan Year in which the Participant attains age 35 and ends on the date of the Participant's death. If a Participant separates from service prior to the first day of the Plan Year in which age 35 is attained, with respect to the Individual Account Balance as of the date of separation, the election period shall begin on the date of separation.

(d) EARLY RETIREMENT AGE shall mean, for purposes of this Section, the earliest date on which, under the Plan, the Participant could elect to receive retirement benefits.

(e) QUALIFIED ELECTION shall mean, for purposes of this Section, an election pursuant to this Subsection. A waiver of a qualified joint and survivor annuity or a qualified preretirement survivor annuity is permitted. The waiver must be in writing, must be executed by the Participant, must specify

the Beneficiary and the optional form of benefit and must be consented to by the Participant's spouse. The spouse's consent to a waiver must be witnessed by a Plan representative or a notary public. Notwithstanding this consent requirement, if the Participant establishes to the satisfaction of a Plan representative that such written consent may not be obtained because there is no spouse or the

spouse cannot be located, a waiver will be deemed a qualified election. Any consent necessary under this provision will be valid only with respect to the spouse who signs the consent, or in the event of a deemed qualified election, the designated spouse. Additionally a revocation of a prior waiver may be made by a Participant without the consent of the spouse at any time before the commencement of benefits. The number of revocations shall not be limited.

(f) QUALIFIED JOINT AND SURVIVOR ANNUITY shall mean, for purposes of this Section, an annuity for the life of the Participant with a survivor annuity for the life of the spouse which is not less than 50% and not more than 100% of the amount of the annuity which is payable during the joint lives of the Participant and the spouse and which is the amount of benefit which can be purchased with the Participant's vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account.

(g) QUALIFIED PRERETIREMENT SURVIVOR ANNUITY shall mean, for purposes of this Section, a survivor annuity for the life of the surviving spouse, the actuarial equivalent of which is not less than 50% of the vested Prior Plan Employer Contribution Account and Prior Plan Salary Redirection Account of the Participant as of the date of death, which may become payable as a result of the Participant's death prior to his Normal Retirement Date.

(h) NOTICE REQUIREMENTS.

(1) In the case of a qualified joint and survivor annuity the Committee shall provide each Participant no less than 30 days and no more than 90 day prior to the annuity starting date (or such other time as provided by regulations or other pronouncements), a written explanation of (i) the terms and conditions of a qualified joint and survivor annuity; (ii) the Participant's right to make and the effect of an election to waive the qualified joint and survivor annuity form of benefit; (iii) the rights of a Participant's spouse; and (iv) the right to make and the effect of a revocation of a previous election to waive the qualified joint and survivor annuity.

(2) In the case of a qualified preretirement survivor annuity the Committee shall provide each Participant within the period beginning on the first day of the Plan Year in which the Participant attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age 35, a written explanation of

the qualified preretirement survivor annuity in such terms and in such manner as would be comparable to the explanation provided for meeting the requirement of a qualified joint and survivor annuity. If a Participant enters the Plan after the first day of the Plan Year in which the Participant attained age 32, the Committee shall provide notice no later than the close of the third Plan Year succeeding the entry of the Participant in the Plan.

(3) Notwithstanding the other requirements of this Section, the respective notices prescribed by this Section need not be given to a Participant if the Plan "fully subsidizes" the costs of a qualified joint and survivor

annuity or qualified preretirement survivor annuity, and the Participant cannot elect another form of benefit. For purposes of this Section, the Plan fully subsidizes the costs of a benefit if under the Plan the failure to waive such benefit by a Participant would not result in a decrease in any plan benefits with respect to such Participant and would not result in increased contributions from the Participant.

ARTICLE 6

WITHDRAWALS

Section 6.1 HARDSHIP WITHDRAWAL

(a) Except as otherwise provided in this Section, and upon proper written application of a Participant made at least 30 days in advance of the withdrawal date, in such form as the Committee may specify, the Committee in its sole discretion may permit the Participant to withdraw a portion or all of the balance of his Salary Redirection Account and Prior Plan Salary Redirection Account, provided that earnings allocated to said account may not be withdrawn. Such withdrawal shall be based on the Valuation Date coincident with or immediately preceding the date of distribution and may not be less than $500.00, or if the amount of hardship exceeds $500.00 but the amount available for distribution is lower, the total amount available for distribution as a hardship withdrawal.

(b) The reason for a withdrawal pursuant to this Section must be to enable the Participant to meet unusual or special situations in his financial affairs resulting in immediate and heavy financial needs of the Participant. Such situations shall be limited to:

(1) uninsured medical expenses (described in Code Section 213(d)) incurred by or needed to procure services for the Participant, the Participant's spouse or any dependents of the Participant (as defined in Code Section 152);

(2) purchase (excluding mortgage payments) of a principal residence for the Participant;

(3) payment of tuition for the next 12 months of post-secondary education for the Participant, his or her spouse, children, or dependents;

(4) the need to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence; or

(5) any additional items which may be added to the list of deemed immediate and heavy financial needs by the Commissioner of Internal Revenue through the publication of revenue rulings, notices, and other documents of general applicability.

Any withdrawal hereunder may not exceed the amount required to meet the immediate financial need created, and provided further that such amount must not be reasonably available from other resources of the Participant.

(c) The Committee may shorten the notice period if it finds it is administratively feasible. In granting or refusing any request for withdrawal or in shortening the notice period, the Committee shall apply uniform standards consistently and such discretionary power shall not be applied so as to discriminate in favor of Highly Compensated Employees.

(d) The withdrawals under this Section shall in no way affect said Participant's continued participation in this Plan except by the reduction in account balances caused by such withdrawal.

(e) A Participant shall present evidence to the Committee that the requested withdrawal is not in excess of the amount necessary to relieve the financial need of the Participant and that the need can not be satisfied from other resources that are reasonably available to the Participant. The determination by the Committee that the distribution will be necessary to satisfy an immediate and heavy financial need will be made on the basis of all relevant facts and circumstances. A distribution generally will be treated as necessary to satisfy a financial need if the Committee relies, without actual knowledge to the contrary, on the Participant's representation that the need cannot be relieved:

1. through reimbursement of compensation by insurance or otherwise;

2. by reasonable liquidation of the Participant's assets, to the extent such liquidation would not itself cause an immediate and heavy financial need;

3. by cessation of Salary Redirection under the Plan; or

4. by other distributions or non-taxable loans from the plans maintained by the Employer or by any other employer, or by borrowing from commercial sources on reasonable commercial terms.

For purposes of this Subsection, the Participant's resources shall be deemed to include those of his spouse and minor children that are reasonably available to the Participant.

Section 6.2 PRIOR PLAN EMPLOYER CONTRIBUTION ACCOUNT WITHDRAWALS

Upon proper written application in such manner and in such form as the Committee may specify, a Participant shall be permitted to withdraw a portion or all of the balance of his Prior Plan Employer Contribution Account and Prior Plan Salary

Redirection Account while employed, determined as of the Valuation Date coincident with or immediately preceding the date of application but only to the extent that he would have been permitted to withdraw the funds in the account if they had not been transferred from the prior plan which was merged into this Plan.

Section 6.3 PARTICIPANT LOANS

No Participant loans are permitted under this Plan. However, to the extent that a plan that is merged into this Plan has loans outstanding, the outstanding loan balance and accrued interest may be transferred to this Plan and segregated in the Participant's Individual Account until repaid. The loan shall be

repaid and subject to the terms of the loan agreement, including the provisions of the merged plan.

ARTICLE 7

FUNDING

Section 7.1 CONTRIBUTIONS

Contributions by the Employer and by the Participants as provided for in Article 3 shall be paid over to the Trustee. All contributions by the Employer shall be irrevocable, except as herein provided, and may be used only for the exclusive benefit of the Participants, Former Participants and their Beneficiaries.

Section 7.2 TRUSTEE

The Sponsoring Employer has entered into an agreement with the Trustee whereunder the Trustee will receive, invest and administer trust fund contributions made under this Plan in accordance with the Trust Agreement.

Such Trust Agreement is incorporated by reference as a part of the Plan, and the rights of all persons hereunder are subject to the terms of the Trust Agreement. The Trust Agreement specifically provides, among other things, for the investment and reinvestment of the Fund and the income thereof, the management of the Trust Fund, the responsibilities and immunities of the Trustee, removal of the Trustee and appointment of a successor, accounting by the Trustee and the disbursement of the Trust Fund.

The Trustee shall, in accordance with the terms of such Trust Agreement, accept and receive all sums of money paid to it from time to time by the Employer, and shall hold, invest, reinvest, manage and administer such moneys and the increment, increase, earnings and income thereof as a trust fund for the exclusive benefit of the Participants, Former Participants and their Beneficiaries or the payment of reasonable expenses of administering the Plan.

In the event that affiliated or subsidiary Employers become signatory hereto, completely independent records, allocations, and contributions shall be maintained for each Employer. The Trustee may invest all funds without segregating assets between or among signatory Employers.

ARTICLE 8

FIDUCIARIES

Section 8.1 GENERAL

(a) Each Fiduciary who is allocated specific duties or responsibilities under the Plan or any Fiduciary who assumes such a position with the Plan shall discharge his duties solely in the interest of the Participants, Former Participants and Beneficiaries and for the exclusive purpose of providing such benefits as stipulated herein to such Participants, Former Participants and Beneficiaries, or defraying reasonable expenses of administering the Plan. Each Fiduciary, in carrying out such duties and responsibilities, shall act with the care, skill, prudence, and diligence under

the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in exercising such authority or duties.

(b) A Fiduciary may serve in more than one Fiduciary capacity and may employ one or more persons to render advice with regard to his Fiduciary responsibilities. If the Fiduciary is serving as such without compensation, all expenses reasonably incurred by such Fiduciary shall be paid from the Trust Fund or by the Employer.

(c) A Fiduciary may allocate any of his responsibilities for the operation and administration of the Plan. In limitation of this right, a Fiduciary may not allocate any responsibilities as contained herein relating to the management or control of the Trust Fund except through the employment of an investment manager as provided in Section 8.3 of this Article and in the Trust Agreement relating to the Fund.

Section 8.2 EMPLOYER

(a) The Sponsoring Employer established and maintains the Plan for the benefit of its Employees and for Employees of Participating Employers and of necessity retains control of the operation and administration of the Plan. The Sponsoring Employer, in accordance with specific provisions of the Plan, has as herein indicated, delegated certain of these rights and obligations to the Trustee, and the Committee and these parties shall be solely responsible for these, and only these, delegated rights and obligations.

(b) The Employer shall supply such full and timely information for all matters relating to the Plan as (a) the Committee, (b) the Trustee, and (c) the accountant engaged on behalf of the Plan by the Sponsoring Employer may require for the effective discharge of their respective duties.

Section 8.3 TRUSTEE

The Trustee, in accordance with the Trust Agreement, shall be a directed Trustee with respect to Trust Fund, except that the Committee may in its discretion employ the Trustee any time and from time to time as an investment manager (as defined in Section 3(38) of ERISA) with respect to all or a designated portion of the assets comprising the Trust Fund. The committee or an investment manager so appointed shall have the exclusive authority or discretion to manage the Trust Fund.

Section 8.4 RETIREMENT COMMITTEE

(a) The Board of the Sponsoring Employer shall appoint a Committee of one or more persons to hold office at the pleasure of the Board, such committee to be known as the Retirement Committee or Committee. No compensation shall be paid members of the Committee from the Trust Fund for service on such Committee. The Committee shall choose from among its members a chairman and a secretary. Any action of the Committee shall be determined by the vote of a majority of its members. Either the chairman or the secretary may execute any certificate or written direction on behalf of the Committee.

(b) Every decision and action of the Committee shall be valid if concurrence is by a majority of the members then in office, which concurrence may be had without a formal meeting.

(c) In accordance with the provisions hereof, the Committee has been delegated certain administrative functions relating to the Plan with all powers necessary to enable it to properly carry out such duties. The Committee shall have no power in any way to modify, alter, add to or subtract from, any provisions of the Plan. The Committee shall have the power and authority in its sole, absolute and uncontrolled discretion to control and manage the operation and administration of the Plan and its investment and shall have all powers necessary to accomplish these purposes, and to make factual determinations regarding Participants and their accounts. The responsibility and authority of the Committee shall include, but shall not be limited to, (i) determining all questions relating to the eligibility of employees to participate; (ii) determining the amount and kind of benefits payable to any Participant, spouse or Beneficiary; (iii) establishing and reducing to writing and distributing to any Participant or Beneficiary a claims procedure and administering that procedure, including the processing and determination of all appeals thereunder and (iv) interpreting the provisions of the Plan including the publication of rules for the regulation of the Plan as in its sole, absolute and uncontrolled discretion are deemed necessary or advisable and which are not inconsistent with the express terms hereto the Code or ERISA, as amended. All disbursements by the Trustee, except for the ordinary expenses of administration of the Trust Fund or the reimbursement of reasonable expenses at the direction of the Sponsoring Employer, as provided herein, shall be made upon, and in accordance with, the written

directions of the Committee. When the Committee is required in the performance of its duties hereunder to administer or construe, or to reach a determination, under any of the provisions of the Plan, it shall do so on a uniform, equitable and nondiscriminatory basis.

(d) The Committee shall establish rules and procedures to be followed by the Participants, Former Participants and Beneficiaries in filing applications for benefits and for furnishing and verifying proofs necessary to establish age, Service, and any other matters required in order to establish their rights to benefits in accordance with the Plan. Additionally, the Committee shall establish accounting procedures for the purpose of making all allocations, valuations and adjustments to Participants' accounts. Should the Committee determine that the strict application of its accounting procedures will not result in an equitable and nondiscriminatory allocation among the accounts of Participants, it may modify its procedures for the purpose of achieving an equitable and non-discriminatory allocation in accordance with the general concepts of the Plan, provided however that such adjustments to achieve equity shall not reduce the vested portion of a Participant's interest.

(e) The Committee may employ such counsel, accountants, and other agents as it shall deem advisable. The Sponsoring Employer shall pay, or cause to be paid from the Trust Fund, the compensation of such counsel, accountants, and other agents and any other expenses incurred by the Committee in the administration of the Plan and Trust.

Section 8.5 CLAIMS PROCEDURES

The Committee has delegated to the Human Resources Department

(the "Claims Coordinator") the processing of all applications for benefits. Upon receipt by the Claims Coordinator of such an application, it shall determine all facts which are necessary to establish the right of an applicant to benefits under the provisions of the Plan and the amount thereof as herein provided. Upon request, the Claims Coordinator will afford the applicant the right of a hearing with respect to any finding of fact or determination. The applicant shall be notified in writing of any adverse decision with respect to his claim within 90 days after its submission. The notice shall be written in a manner calculated to be understood by the applicant and shall include the items specified in Section 8.5(a) through (d).

(a) The specific reason or reasons for the denial;

(b) Specific references to the pertinent Plan provisions on which the denial is based;

(c) A description of any additional material or information necessary for the applicant to perfect the claim and an explanation why such material or information is necessary; and

(d) An explanation of the Plan's claim review procedures.

(e) If special circumstances require an extension of time for processing the initial claim, a written notice of the extension and the reason therefor shall be furnished to the claimant before the end of the initial 90 day period. In no event shall such extension exceed 90 days.

(f) In the event a claim for benefits is denied or if the applicant has had no response to such claim within 90 days of its submission (in which case the claim for benefits shall be deemed to have been denied), the applicant or his duly authorized representative, at the applicant's sole expense, may appeal the denial to the Committee within 60 days of the receipt of written notice of denial or 60 days from the date such claim is deemed to be denied. In pursuing such appeal the applicant or his duly authorized representative:

(1) May request in writing that the Committee review the denial;

(2) May review pertinent documents; and

(3) May submit issues and comments in writing.

(g) The decision on review shall be made within 60 days of receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If such an extension of time is required, written notice of the extension shall be furnished to the claimant before the end of the original 60 day period. The decision on review shall be made in writing, shall be written in a manner calculated to be understood by the claimant, and shall include specific references to the provisions of the Plan on which such denial is based. If the decision on review is not furnished within the time specified above, the claim shall be deemed denied on review.

Section 8.6 RECORDS

All acts and determinations of the Claims Coordinator or the Committee shall be duly recorded by the Claims Coordinator or the secretary of the Committee and all such records together with such other documents as may be necessary in exercising their duties under the Plan shall be preserved in the custody of such secretary. Such records and documents shall at all times be open for inspection and for the purpose of making copies by any person designated by the Sponsoring Employer. The Committee shall provide such timely information, resulting from the application of its responsibilities under the Plan, as needed by the Trustee and the accountant engaged on behalf of the Plan by the Sponsoring Employer, for the effective discharge of their respective duties.

ARTICLE 9

AMENDMENT AND TERMINATION OF THE PLAN

Section 9.1 AMENDMENT OF THE PLAN

The Sponsoring Employer shall have the right at any time by action of the Board to modify, alter or amend the Plan in whole or in part; provided, however, that the duties, powers and liability of the Trustee hereunder shall not be increased without its written consent; and provided, further, that the amount of benefits which, at the time of any such modification, alteration or amendment, shall have accrued for any Participant, Former Participant or Beneficiary hereunder shall not be adversely affected thereby; and provided, further, that no such amendments shall have the effect of reverting to the Employer any part of the principal or income of the Trust Fund. No amendment to the Plan shall decrease the balance of a Participant's Individual Account or eliminate an optional form of distribution.

Section 9.2 TERMINATION OF THE PLAN

The Sponsoring Employer expects to continue the Plan indefinitely, but continuance is not assumed as a contractual obligation and the Sponsoring Employer reserves the right at any time by action of the Board to terminate its participation in the Plan. If the Sponsoring Employer terminates or partially terminates its participation in the Plan or permanently discontinues its Contributions at any time, each Participant affected thereby shall be then vested with the amount allocated to his Individual Account.

In the event of termination or partial termination of the Plan by the Sponsoring Employer, the Committee shall value the Trust Fund as of the date of termination. That portion of the Trust Fund for which the Plan has not been terminated shall be unaffected.

Section 9.3 RETURN OF CONTRIBUTIONS

It is intended that this Plan shall be approved and qualified under the Code and Regulations issued thereunder with respect to Employees' Plans and Trusts (1) so as to permit the Employers to deduct for federal income tax purposes the amounts of contributions to the Trust; (2) so that contributions so made and the income of the Trust Fund will not be taxable to Participants as income until received; (3) so that the income of the Trust Fund shall be exempt from federal income tax. In the event the Commissioner of Internal Revenue or his delegate rules that the deduction for all or a part of any Employer Contribution (or Salary Redirection) is not allowed, the Employers reserve the right to recover that portion or all of their contributions for which no deduction is allowed, provided such recovery is made

within one year of the disallowance.

ARTICLE 10

MISCELLANEOUS

Section 10.1 GOVERNING LAW

The Plan shall be construed, regulated and administered according to the laws of the Commonwealth of Kentucky, except in those areas preempted by the laws of the United States of America.

Section 10.2 CONSTRUCTION

The headings and subheadings in the Plan have been inserted for convenience of reference only and shall not affect the construction of the provisions hereof. In any necessary construction the masculine shall include the feminine and the singular the plural, and vice versa.

Section 10.3 ADMINISTRATION EXPENSES

The expenses of administering the Trust Fund and the Plan shall be paid from the Trust Fund, unless they are paid by the Employer.

Section 10.4 PARTICIPANT'S RIGHTS

No Participant in the Plan shall acquire any right to be retained in the Employer's employ by virtue of the Plan, nor, upon his dismissal, or upon his voluntary termination of employment, shall he have any right or interest in and to the Trust Fund other than as specifically provided herein. The Employer shall not be liable for the payment of any benefit provided for herein; all benefits hereunder shall be payable only from the Trust Fund.

Section 10.5 NONASSIGNABILITY

(a) The benefit or interest under the Plan and Trust of any person shall not be assignable or alienable by that person and shall not be subject to alienation by operation of law or legal process. The preceding sentence shall apply to the creation, assignment or recognition of any right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as de fined in Section 414(p) of the Code. A domestic relations order entered before January 1, 1985, shall be treated as a qualified domestic relations order if payment of benefits pursuant to the order has commenced as of such date, and may be treated as a qualified domestic relations order if payment of benefits is not commenced as of such date, even though the order does not satisfy the requirements of Section 414(p) of the Code.

(b) This Plan specifically permits a distribution to an alternate payee under a qualified domestic relations order at any time, irrespective of whether the Participant has attained his earliest retirement age (as defined under Code Section 414(p)) under the Plan. A distribution to an alternate payee prior to the Participant's attainment of earliest retirement age is available only if: (a) the order specifies distribution at that time or permits an agreement between the Plan and the alternate payee to authorize an earlier distribution; and (b)

if the present value of the alternate payee's benefits under the Plan exceeds $3,500, and the order requires, the alternate payee consents to any distribution occurring prior to the Participant's attainment of earliest retirement age. Nothing in this Section 10.5 gives a Participant a right to receive distribution at a time otherwise not permitted under the Plan nor does it permit the alternate payee to receive a form of payment not permitted under the Plan.

Section 10.6 MERGER, CONSOLIDATION OR TRANSFER

In the event of the merger or consolidation of the Plan with another plan or transfer of assets or liabilities from the Plan to another plan, each then Participant, Former Participant or Beneficiary shall not, as a result of such event, be entitled on the day following such merger, consolidation or transfer under the termination of the Plan provisions to a lesser benefit than the benefit he was entitled to on the date prior to the merger, consolidation or transfer if the Plan had then terminated.

Section 10.7 COUNTERPARTS

The Plan and the Trust Agreement may be executed in any number of counterparts, each of which shall constitute but one and the same instrument and may be sufficiently evidenced by any one counterpart.

Section 10.8 ADMINISTRATIVE MISTAKE

If the Committee discovers that a mistake has been made in crediting Salary Redirection contributions or Employer contributions, withholding Salary Redirection Contributions from a Participant's Compensation, or crediting earnings to the account of any Participant, the Committee shall take any administrative action which it deems necessary or appropriate to remedy the mistake in question, and may request the Employer to make a special contribution to the account of the Participant where appropriate. If the Committee discovers that a mistake has been made in calculating the amount of any excess Salary Redirection or other contribution under Sections 3.4, 3.5 or 4.6, or earnings on such excess amount, which amount is required to be distributed to a Participant, the Committee shall take such administrative action as it deems necessary or appropriate to remedy the mistake in question.

ARTICLE 11

TOP HEAVY PLAN PROVISIONS

Section 11.1 GENERAL

Notwithstanding anything in the Plan to the contrary, if this Plan when combined with all other plans required to be aggregated pursuant to Code Section 416(g) is deemed to be a top-heavy plan for any Plan Year, the provisions of this Article shall apply to such Plan Year.

Section 11.2 MINIMUM CONTRIBUTION

Regardless of hours worked, each active Participant who is not a Key Employee shall be entitled to a minimum allocation of contributions and forfeitures equal to the lesser of (i) three percent (3%) of the Participant's Compensation for the Plan Year; and (ii) provided that the Plan is not part of a Required Aggregation Group with a Defined Benefit Plan because the Plan

enables the Defined Benefit Plan to meet the requirements of Code Section 401(a)(4) or 410, the highest percentage of Compensation contributed on behalf of, plus forfeitures allocated to, a Key Employee. In the case of a Participant who is also a participant in a defined benefit plan maintained by the Employer, the minimum accrued benefit provided in the defined benefit plan pursuant to Code Section 416(c)(1) equal to two percent of the Participant's average monthly compensation for the five consecutive years when his aggregate compensation was highest multiplied by his years of credited service up to ten years for each plan year in which the Plan is top heavy, shall be the only minimum benefit for both that plan and this Plan, and the minimum allocation described above shall not apply.

Section 11.3 SUPER TOP HEAVY PLAN

The multiplier of 1.25 in Section 4.7 shall be reduced to 1.0 unless (i) all plans of the Required Aggregation Group or the Permissive Aggregation Group, when aggregated, are 90% or less top heavy, and (ii) the minimum accrued benefit referenced in clause (i) of Section 11.2 is modified by substituting three percent with four percent. In the case of each Participant who is also a participant in a defined benefit plan maintained by the Employer, the minimum accrued benefit provided in the defined benefit plan pursuant to Code Sections 416(c)(1) and 416(h) equal to three percent of the Participant's average monthly compensation for the five highest consecutive years when his aggregate compensation was highest multiplied by his years of credited service up to ten years for each plan year in which the Plan is top heavy shall be the only minimum benefit for both that plan and this Plan, and the minimum allocation described above shall not apply.

Section 11.4 MINIMUM VESTING

In the event that the regular vesting schedule in Article 5 is less liberal than the vesting schedule hereinafter provided, then such vesting schedule shall be substituted with the following to the extent that the following schedule is more favorable:

Years of Service	Vested Percentage
Less than 2 years	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 but less than 6	80%
6 years or more	100%

Should the Plan cease to be a Top Heavy Plan, the regular vesting schedule in Article 5 shall be put back into effect. However, the vested percentage of any Participant cannot be decreased as a result of the return to the prior vesting schedule and any Participant with three or more years of Service may elect within the later of: (1) 60 days after the Plan ceases to be a Top Heavy Plan or (2) 60 days after the date the Participant is issued written notification of the change in the vesting schedules, to remain under the special vesting rules described in this Section.

Section 11.5 COMPENSATION

For purposes of this Article, compensation shall have the same meaning as assigned to it by Code Section 415 and shall be limited

to such amount as required by Code Section 401(a)(17).

ARTICLE 12

PROVISIONS RELATED TO EMPLOYERS INCLUDED IN THE PLAN

Section 12.1 GENERAL. Any Employer that, with the Committee's consent, adopts this Plan and becomes a party to the Trust Agreement shall be a "Participating Employer." Participating Employers as of January 1, 1997 are listed on Appendix B to the Plan, and any Participating Employers added in the future shall be so listed as soon as reasonably practicable after the Committee consents to their adoption of this Plan. Each Participating Employer shall be subject to the terms and conditions of this Plan as in effect at the effective date of adoption by the Participating Employer and as subsequently amended from time to time by the Vencor, Inc. (For purposes of this section, the "Sponsoring Employer"), subject to such modifications as are set forth in the document evidencing the Participating Employer's adoption of the Plan. Unless the context of the Plan clearly indicates to the contrary, the terms "Company" and "Employer" shall be deemed to include each Participating Employer as relates to its adoption of the Plan. When an entity ceases to be an "Employer" because it is no longer a part of the Company, or ceases to be managed by an entity in the Vencor, Inc. or Atria Communities, Inc. controlled group, the entity shall cease to be a Participating Employer. Section 12.4 shall not apply to such cessation.

Section 12.2 SINGLE PLAN. This Plan shall be deemed to be a single plan of all Employers that have adopted this Plan. Employer contributions shall not be accounted for separately, and all Plan assets shall be available to pay benefits to all Participants and their Beneficiaries. Forfeitures shall not be specially allocated to reduce the Matching Contribution obligation of the Employer whose employees suffered the forfeiture. Employees may be transferred among Participating Employer or employed simultaneously by more than one Participating Employer, and no such transfer or simultaneous employment shall effect a termination of employment, be deemed retirement or be the cause of a Forfeiture or a loss of years of Service under this Plan. For purposes of determining years of Service and the payment of benefits upon death or other termination of employment, all Participating Employers shall be deemed one Employer. Any Participant employed by a Participating Employer during a Plan Year who receives any Compensation from a Participating Employer during that Plan Year shall receive an allocation of any Employer Contributions and Forfeitures for the Plan Year in accordance with Article 3 based on his Compensation during that Plan Year.

Section 12.3 SPONSORING EMPLOYER AS AGENT. Each Participating Employer shall be deemed to have designated irrevocably the Sponsoring Employer as its sole agent (1) for all purposes under Section 8 (including fixing the number of members of, and the appointment and removal of, the Committee); (2) with respect to all its relations with the Trustee (including the Trustee's appointment and removal, and fixing the number of Trustees); and (3) for the purpose of amending this Plan. The Committee shall make any and all rules and regulations which it shall deem necessary or appropriate to effectuate the purpose of this Article 12, and such rules and regulations shall be

binding upon the Sponsoring Employer, the Participating Employers,

the Participants and Beneficiaries.

Section 12.4 WITHDRAWAL OF EMPLOYER. Any Participating Employer may withdraw its partic ipation in the Plan by giving written notice to the Administrator stating that it has adopted a separate plan. The notice shall be given at least six months prior to a designated Valuation Date, unless the Committee shall accept a shorter period of notification. Upon request of the withdrawing Participating Employer, the Committee may, but shall not be obligated to, instruct the Trustee to transfer the withdrawing Participating Employer's interest in the Plan to the Participating Employer's separate plan in accordance with the following rules: Promptly after the Valuation Date as of which the transfer is to occur, the Committee shall establish the withdrawing Participating Employer's interest in the Trust Fund, after a reduction for fees and other expenses related to the Participating Employer's withdrawal. The Trustee shall then, in accordance with the Committee's instructions, transfer the withdrawing Participating Employer's interest in the Fund to the trustee or other funding agent of the Participating Employer's separate plan. Neither the Trustee nor the Committee shall be obligated to transfer or direct the transfer of assets under this Article until they are satisfied as to all matters pertaining to the transfer, including, but not limited to, the tax qualification of the plan into which the transfer will be made. The Committee and the Trustee may rely fully on the representations and instructions of the withdrawing Participating Employer and shall be fully protected and discharged with respect to any transfer made in accordance with such representations or instructions. Any transfer of assets in accordance with this Article shall constitute a complete discharge of responsibility of the Sponsoring Employer, the remaining Participating Employer, their Boards of Directors and officers, and the Trustee without any responsibility on their part collectively or individually to see to the application thereof. The Committee in its sole discretion shall have the right to transfer the withdrawing Participating Employer's interest in the Fund to the new plan in the form of installments, in cash, or in cash and kind and over a period of time not to exceed one year following the designated Valuation Date as of which the transfer is to occur. Any assets which are invested in accordance with an investment contract or agreement which by its terms precludes the realization upon and distribution of such assets for a stated period of time shall continue to be held by the Trustee under the terms and conditions of this Plan until the expiration of such period, subject to the Committee's instructions. The Committee may in its sole discretion direct the Trustee to segregate the Accounts of all affected Participants into a separate fund to facilitate transfer, and the Administrator may in its sole dis cretion direct the Trustee to invest the separate fund only in cash equivalent investments.

Section 12.5 TERMINATION OF PARTICIPATION. The Board of Directors of a Participating Employer may at any time terminate this Plan with respect to its Employees by adopting a resolution to that effect and delivering a certified copy to the Committee. Section 9.2 shall not apply to vest the Individual Accounts of a Participating Company's Employees upon such termination (unless the termination results in a

partial termination of the entire Plan), and the continuation of the Plan by the Sponsoring Employer and other Participating Employers shall not be affected. The termination of the Plan with respect to a Participating Employer's Employees shall not effect a termination with respect to an Employee of the Sponsoring Employer or another Participating Employer if such Employee was not

employed by the term inating Participating Employer on the effective date of the termination, even though he may have been employed by the terminating Participating Employer at an earlier date, and shall not entitle a Participant to a distribution until an actual separation from service with the meaning prescribed under Code Section 401(k)(2)(B) has occurred, unless distribution follows an event in Code Section 401(k)(10) and the Treasury Regulations thereunder. Any fees and other expenses related to a Participating Employer's termination shall be charged against the Accounts of the affected Participants, if not paid by the terminating Participating Employer.

Section 12.6 MULTIPLE EMPLOYER PLAN TESTING. This Plan covers the employees of employers not considered a controlled group under Code Section 414. Each of the discrimination tests and limitations on contributions in the Plan shall be applied on a controlled group by controlled group basis where required by the Code and applicable Treasury Regulations.

SIGNATURES

IN WITNESS WHEREOF, THE SPONSORING EMPLOYER HAS CAUSED THIS PLAN TO BE EXECUTED THIS 31 DAY OF DECEMBER, 1997, BUT EFFECTIVE JANUARY 1, 1997.

VENCOR, INC.

BY /s/ CECELIA A. HAGAN

TITLE: Vice President of Human Resources

APPENDIX "A"

PAST SERVICE PURSUANT TO SECTION 1.43(b)

Nationwide Care, Inc.--service for all periods from date of hire with this company
Any company for which past service was granted prior to January 1, 1997 under this Plan prior to its restatement, or under The Hillhaven Corporation Deferred Savings Plan

APPENDIX "B"

PARTICIPATING EMPLOYERS
(AS OF JANUARY 1, 1997)

ATRIA COMPANIES:
Atria Communities Southeast, Inc.
Atria Communities, Inc.
Atrium at Buckhead, LLC
Atrium at Germantown, LLC
Atrium at Weston Court, LLC

Atrium at Weston Place, LLC
Hillhaven Properties, Ltd.

PARTNERSHIPS:

Name of Partnership	Partners	Total Direct or Indirect Vencor (Atria)Ownership
Advanced Respiratory Care d/b/a California Respiratory Care Partnership	Advanced Infusion System, Inc.--51% Alta Bates Medical Center--49%	51%
Bartlesville Nursing Home Partnership	First Healthcare Corporation--50% LIC-HHE Limited Partnership--50%	50%
CPS Sacramento	Advanced Infusion Systems, Inc.--60% Western Hospital Equipment & Supply Co.--40%	60%
Castle Gardens Retirement Center L/P	Hillhaven Properties, Ltd.--2% Atria Communities, Inc.--98%	0% (Atria 100%)
Foothill Nursing Company Partnership	First Healthcare Corporation--50% Foothill Skilled Nursing, Inc.--50%	50%

Name of Partnership	Partners	Total Direct or Indirect Vencor (Atria)Ownership
Fox Hill Village Partnership--until it terminated its participation effective 3/31/97	Brim of Massachusetts--50% MGH Health Services--50%	50%
Hillhaven-MSC Partnership	First Healthcare Corporation--50% Mercy Services corporation--50%	50%
Medlife Pharmacy Network Partnership	Medsave of Tennessee, Inc.--50% Life Care Pharmacy Services, Inc.--50%	50%
Pharmaceutical Infusion Therapy Partnership	Visiting Nurse Assoc. & Hospice of No. CA--49.01% Advanced Infusion Therapy, Inc.--50.99%	50.99%
Sandy Retirement Center Limited Partnership	Hillhaven Properties Ltd.--2% Atria Communities, Inc.--98%	0% (100% Atria)
San Marcos Nursing Home Partnership	First Healthcare Corporation--50%	100%

	Nationwide Care, Inc.--50%	
Starr Farm Partnership	First Healthcare Corporation--50% Vermont Health Ventures, Inc.--50%	50%
Topeka Retirement Center, LTD	Hillhaven Properties Ltd.--90% Atria Communities, Inc.--10%	0% (100% Atria)
Tucson Retirement Center, Ltd. Partnership	Hillhaven Properties Ltd. and Atria Communities, Inc.	0% (100% Atria)

Name of Partnership	Partners	Total Direct or Indirect Vencor (Atria)Ownership
Visiting Nurse Advanced Infusion Systems-Anaheim Partnership	Advanced Infusion Systems, Inc.--50.010% Strategic Health Technologies, Inc.--24.995% Valley Support Services of VNA, Inc.--24.995%	50.010%
Visiting Nurse Advanced Infusion Systems-Colton Partnership	Advanced Infusion Systems, Inc.--51.01% Inland Empire roadrunners, Inc.--16.33% Visiting Nurse Association Pomona-Pharmacy, Inc.--16.33% RVNA Comprehensive Health Services, Inc.--16.33%	51.01%
Visiting Nurse Advanced Infusion Systems-Newbury Park Partnership	Advanced Infusion Systems, Inc.--51.01% Livingston Memorial VNA-Pharmacy--16.33% Verdugo Hills VNA-Pharmacy--16.33% The Visiting Nurse Service, Inc.--16.33%	51.01%
VNA/CPS Partnership	Visiting Nurse Association, Inc.--46.2875% MISCO Investments, Inc.--7.425% Advanced Infusion Systems, Inc.--46.2875%	46.2875%
Woodhaven Partners, Ltd.	Hillhaven Properties, Ltd.--49.0196% Atria Communities, Inc.--49.0196%	0% (100% Atria)

MANAGED ENTITIES:

FACILITY	OWNER	MANAGER
Marietta Convalescent #920	Jackson Browne Enterprises, Inc.	Nationwide Care, Inc.
Salemhaven #950	Salemhaven, Inc.	First Healthcare Corp.
Clark House @ Foxhill Village #983 (until 3/31/97 withdrawal)	Foxhill Village Partnership	Atria
Foothill #981	Foothill Nursing Home Partnership	Hillhaven, Inc.
San Marcos Healthcare Center #982	San Marcos Nursing Home Partnership	Hillhaven Holding Company
Starr Farm #995	Starr Farm Partnership	First Healthcare Corp.
Brookhaven Nursing Center #226	Hillhaven Corp./Tenet	First Healthcare Corp.
Holladay Healthcare Center #992	Paul Randle Assoc.	Hillhaven, Inc.
Ledgewood #949	Ledgewood Healthcare Corp.	Hillhaven Corp.
Heritage Village Nursing Center - #955	Bartlesville Nursing Home Partnership	Hillhaven Inc.
Windsor Woods Convalescent Center - #922	Windsor Woods Nursing Home Partnership	Hillhaven Inc.
Carrollwood Care Center - #972	Carrollwood Care Center	Hillhaven Corp.
19th Ave. Healthcare Center - - #926	Hillhaven MS Partnership	Hillhaven Corp.
Convalescent Center - #918	Hillhaven Community Health Partnership	Hillhaven Corp.
The French Quarter - #974	NME Hospitals Inc./Tenet	First Healthcare Corp.
The Menorah House - #169	Hillhaven Inc./Tenet	First Healthcare Corp.
The North Shore Living Center - #978	Hillhaven Corp./Tenet	First Healthcare Corp.
The Healthcare Center of Palm Bay - #815	Tenet Healthcare Corp.	First Healthcare Corp.

FACILITY	OWNER	MANAGER
Jo Ellen Smith Convalescent Center - #990	Hillhaven Corp./Tenet	First Healthcare Corp.
Alvarado Convalescent & Rehab Hospital - #902	Hillhaven West, Inc./Tenet	First Healthcare Corp.

EXHIBIT 10.32

CHANGE-IN-CONTROL SEVERANCE AGREEMENT

THIS CHANGE-IN-CONTROL SEVERANCE AGREEMENT (the "Agreement") is made as of the ____ day of _____, 199__, by and between VENCOR, INC., a Delaware corporation ("Vencor"), and _____ (the "Employee").

RECITALS:

A. The Employee is employed by Vencor, either directly or through one of its wholly owned subsidiaries (collectively, the "Company").

B. The Company recognizes that the Employee's contribution to the Company's growth and success has been and continues to be significant.

C. The Company wishes to encourage the Employee to remain with and devote full time and attention to the business affairs of the Company and wishes to provide income protection to the Employee for a period of time in the event of a Change in Control.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT:

1. DEFINITIONS.

A. "BASE SALARY" shall mean the Employee's regular annual rate of base pay in gross as of the date of Employee's Termination of Employment or the Change-in-Control Date, as determined under Section 3(a).

B. "CAUSE" shall mean the Employee's (i) conviction of or plea of nolo contendere to a crime involving moral turpitude; or (ii) willful and material breach by Employee of his duties and responsibilities, which is committed in bad faith or without reasonable belief that such breaching conduct is in the best interests of the Company, but with respect to (ii) only if the Board of Directors adopts a resolution by a vote of at least 75% of its members so finding after giving the Employee and his attorney an opportunity to be heard by the Board of Directors.

C. CHANGE IN CONTROL. The term "Change in Control" shall mean any one of the following events:

(i) An acquisition (other than directly from Vencor) of any voting securities of Vencor (the "Voting Securities") by any "Person" (as defined in Section 1(f) hereof) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 under the 1934 Act) of 20% or more of the combined voting power of Vencor's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in an acquisition by (i) Vencor or any of its subsidiaries, (ii) an employee benefit plan (or a trust forming a part thereof) maintained by Vencor or any of its subsidiaries or (iii) any Person in connection with an acquisition referred to in the immediately preceding clauses (i) and (ii) shall not constitute an acquisition which would cause a Change in

Control.

(ii) The individuals who, as of February 15, 1995, constituted the Board of Directors of Vencor (the "Incumbent Board") cease for any reason to constitute over 50% of the Board; provided, however, that if the election, or nomination for election by Vencor's stockholders, of any new director was approved by a vote of over 50% of the Incumbent Board, such new director shall, for purposes of this Section 1.c.(ii), be considered as though such person were a member of the Incumbent Board; provided, further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of Vencor (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest.

(iii) Approval by stockholders of Vencor of a merger, consolidation or reorganization involving Vencor, unless each of the following events occurs in connection with such merger, consolidation or reorganization:

(A) the stockholders of Vencor, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, over 50% of the combined voting power of all voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Company") over which any Person has Beneficial Ownership in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization;

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute over 50% of the members of the board of directors of the Surviving Company; and

(C) no Person (other than Vencor, any of its subsidiaries, any employee benefit plan [or any trust forming a part thereof] maintained by Vencor, the Surviving Company or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of 20% or more of the then outstanding Voting Securities) has Beneficial

Ownership of 20% or more of the combined voting power of the Surviving Company's then outstanding voting securities.

(iv) Approval by Vencor's stockholders of a complete liquidation or dissolution of Vencor.

(v) Approval by stockholders of an agreement for the sale or other disposition of all or substantially all of the assets of Vencor to any Person (other than a transfer to a subsidiary of Vencor).

(vi) Any other event that the Committee shall determine constitutes an effective Change in Control of Vencor.

(vii) Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by Vencor which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person; provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by Vencor, and after such share acquisition by Vencor, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a

Change in Control shall occur.

D. "CHANGE-IN-CONTROL DATE" shall mean the date immediately prior to the effectiveness of the Change in Control.

E. "GOOD REASON." The Employee shall have good reason to terminate employment with the Company if (i) the Employee's title, duties, responsibilities or authority is reduced or diminished from those in effect on the Change-in-Control Date without the Employee's written consent; (ii) the Employee's compensation is reduced; (iii) the Employee's benefits are reduced, other than pursuant to a uniform reduction applicable to all managers of the Company; or (iv) the Employee is asked to relocate his office to a place more than 30 miles from his business office on the Change-in-Control Date.

F. "PERSON" shall have the meaning ascribed to such term in Section 3(a)(9) of the Securities Exchange Act of 1934 and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

G. "PRIOR YEAR'S BONUS" shall mean the full amount of bonuses and/or performance compensation (other than Base Salary and awards under the Company's 1997 Incentive Compensation Program) to the Employee from Vencor and its subsidiaries in respect of services for the most recent calendar year immediately preceding the date in question.

H. "TERMINATION OF EMPLOYMENT" shall mean (i) the termination of the Employee's employment by the Company other than such a termination in connection with an offer of immediate reemployment by a successor or assign of the Company or a purchaser of the Company or its assets under terms and conditions which would not permit the Employee to terminate his employment for Good Reason or otherwise during any Window Period; or (ii) the Employee's termination of employment with the Company for Good Reason or during any Window Period.

I. "WINDOW PERIOD" shall mean either of two 30-day periods of time commencing 30 days after (i) a Change in Control and (ii) one year after a Change in Control.

2. TERM. The initial term of this Agreement shall be for a three-year period commencing on _____, 199__ (the "Effective Date"). The Term shall be automatically extended by one additional day for each day beyond the Effective Date that the Employee remains employed by the Company until such time as the Company elects to cease such extension by giving written notice of such election to the Employee. In such event, the Agreement shall terminate on the third anniversary of the effective date of such election notice. Notwithstanding the foregoing, this Agreement shall automatically terminate if and when the Employee terminates his employment with the Company or two years after the Change-in-Control Date, whichever first occurs.

3. SEVERANCE BENEFITS. If at any time following a Change in Control and continuing for two years thereafter, the Company terminates the Employee without Cause, or the Employee terminates employment with the Company either for Good Reason or during any Window Period, then as compensation for services previously rendered the Employee shall be entitled to the following benefits:

A. CASH PAYMENT. The Employee shall be paid cash equal to three times the greater of:

(i) the sum of the Employee's Base Salary and Prior Year's Bonus as of the Termination of Employment, or

(ii) the sum of the Employee's Base Salary and Prior Year's Bonus as of the Change-in-Control Date.

In addition, notwithstanding any provision to the contrary in the Company's bonus plan, Employee shall be paid a pro rata portion of the maximum bonus to which he or she would have been entitled if (i) Employee had been employed by the Company as of the year-end in which the Termination of Employment had occurred, and (ii) the Company had achieved the highest targeted goals under the bonus plan at year-end. The pro rata portion shall be determined based on the number of days within the year that Employee was employed by the Company, divided by 365 days. Payment shall be made in a single lump sum within ten days following the date in which Employee's Termination of Employment occurs.

B. CONTINUATION OF BENEFITS.

(i) For a period of three years following the Termination of Employment, the Employee shall be treated as if he or she had continued to be an employee for all purposes under the Company's Health Insurance Plan and Dental Insurance Plan; or if the Employee is prohibited from participating in such plan, the Company shall otherwise provide such benefits. Following this continuation period, the Employee shall be entitled to receive continuation coverage under Part 6 of Title I or ERISA ("COBRA Benefits") treating the end of this period as a termination of the Employee's employment if allowed by law.

(ii) For a period of three years following the Termination of Employment, the Company shall maintain in force, at its expense, the Employee's life insurance in effect under the Company's Voluntary Life Insurance Benefit Plan as of the Change-in-Control Date or as of the date of Termination of Employment, whichever coverage limits are greater.

(iii) For a period of three years following the Employee's Termination of Employment, the Company shall provide short-term and long-term disability insurance benefits to Employee equivalent to the coverage that the Employee would have had had he remained employed under the Company's disability insurance plans applicable to Employee on the date of Termination of Employment, or, at the Employee's election, the plans applicable to Employee as of the Change-in-Control Date. Should Employee become disabled during such period, Employee shall be entitled to receive such benefits, and for such duration, as the applicable plan provides.

C. RETIREMENT SAVINGS PLAN. To the extent not already vested pursuant to the terms of such plan, the Employee's interests under the Company's Retirement Savings Plan shall be automatically fully (i.e., 100%) vested, without regard to otherwise applicable percentages for the vesting of employer matching contributions based upon the Employee's years of service with the Company.

D. PLAN AMENDMENTS. The Company shall adopt such amendments to its employee benefit plans, if any, as are necessary to effectuate the provisions of this Agreement.

4. GOLDEN PARACHUTE TAX REIMBURSEMENT. Whether or not any payments are made pursuant to Section 3 above, if a Change in Control of the Company occurs at any time and the Employee reasonably determines that any payment or distribution by the Company to or for the benefit of the Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any restricted stock,

stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exerciseablility of any of the foregoing (individually and collectively, the "Payment"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (or any successor provision thereto) by reason of being considered "contingent on a change in ownership or control" of the Company, within the meaning of Section 280G of the Code (or any successor provision thereto), or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and

penalties, being hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to the Employee an additional payment or payments (individually and collectively, the "Gross-Up Payment"). The Gross-Up Payment shall be in an amount such that, after payment by the Employee of all taxes required to be paid by the Employee with respect to the receipt thereof under the terms of any federal, state or local government or taxing authority (including any interest or penalties imposed with respect to such taxes), including any Excise Tax imposed with respect to the Gross-Up Payment, the Employee retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payment. The Company shall pay the Gross-Up Payment to the Employee within 30 days of its receipt of written notice from the Employee that such Excise Tax has been paid or will be payable at any time in the future.

5. NO MITIGATION REQUIRED OR SETOFF PERMITTED. In no event shall Employee be obligated to seek other employment or take other action by way of mitigation of the amounts payable to Employee under the terms of this Agreement, and all such amounts shall not be reduced whether or not Employee obtains other employment. Further, the Company's obligations to make any payments hereunder shall not be subject to or affected by any setoff, counterclaims or defenses which the Company may have against Employee or others.

6. WAIVER OF OTHER SEVERANCE BENEFITS. The benefits payable pursuant to this Agreement are in lieu of any other severance benefits which may otherwise be payable by the Company to the Employee upon termination of employment pursuant to a Company-wide severance program (including, without limitation, any benefits to which Employee might otherwise be entitled under any other severance or change in control or similar agreement previously entered into between Employee and Company).

7. EMPLOYMENT AT WILL. Notwithstanding anything to the contrary contained herein, the Employee's employment with the Company is not for any specified term and may be terminated by the Employee or by the Company at any time, for any reason, with or without cause, without any liability, except with respect to the payments provided hereunder or as required by law or any other contract or employee benefit plan.

8. DISPUTES. Any dispute or controversy arising under, out of, or in connection with this Agreement shall, at the election and upon written demand of either party, be finally determined and settled by binding arbitration in the City of Louisville, Kentucky, in accordance with the Labor Arbitration rules and procedures of the American Arbitration Association, and judgment upon the award may be entered in any court having jurisdiction thereof. The Company shall pay all costs of the arbitration and all attorneys' and accountants' fees of the Employee in connection therewith, including any litigation to enforce any arbitration award.

9. SUCCESSORS; BINDING AGREEMENT. This Agreement shall not be terminated by the voluntary or involuntary dissolution of the Company or by any merger or consolidation where the Company is not the surviving corporation, or upon any transfer of all or substantially all of the Company's stock assets or any other

Change in Control. In the event of such merger, consolidation or transfer, or other Change in Control, the provisions of this Agreement shall be

binding upon and shall inure to the benefit of the surviving corporation or corporation to which such stock or assets of the Company shall be transferred.

10. NOTICES. Any notice or other communication hereunder shall be in writing and shall be effective upon receipt (or refusal of receipt) if delivered personally, or sent by overnight courier if signature for the receiving party is obtained, or sent by certified or registered mail, postage prepaid, to the other party at the address set forth below:

If to the Company: Vencor, Inc.
Suite 3300, 400 West Market Street
Louisville, KY 40202
Attention: Secretary

If to Employee: _____
_____
_____

Either party may change its specified address by giving notice in writing to the other.

11. INDEMNIFICATION. The Company shall indemnify, defend and hold the Employee harmless from and against any liability, damages, costs and expenses (including attorneys' fees) in connection with any claim, cause of action, investigation, litigation or proceeding involving him by reason of his having been an officer, director, employee or agent of the Company, except to the extent it is judicially determined that the Employee was guilty of gross negligence or willful misconduct in connection with the matter giving rise to the claim for indemnification. This indemnification shall be in addition to and shall not be substituted for any other indemnification or similar agreement or arrangement which may be in effect between the Employee and the Company or may otherwise exist. The Company also agrees to maintain adequate directors and officers liability insurance, if applicable, for the benefit of Employee for the term of this Agreement and for five years thereafter.

12. ERISA. Many or all of the employee benefits addressed in Sections 3(c) and (d) exist under plans which constitute employee welfare benefit plans ("Welfare Plans") within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Any payments pursuant to this Agreement which could cause any of such Plans not to constitute a Welfare Plan shall be deemed instead to be made pursuant to a separate "employee pension benefit plan" within the meaning of Section 3(2) of ERISA or a "top hat" plan under Section 201(2) of ERISA as to which the applicable portions of the document constituting the Welfare Plan shall be deemed to be incorporated by reference. None of the benefits hereunder may be assigned in any way.

13. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision, which other provisions shall remain in full force and effect.

14. INTERPRETATION. The headings used herein are for convenience only and do not limit or expand the contents of this Agreement. Use of any male gender pronoun shall be deemed to include the female gender also.

15. NO WAIVER. No waiver of a breach of any provision of this Agreement shall be construed to be a waiver of any other breach of this Agreement. No waiver of any provision of this Agreement shall be enforceable unless it is in writing and signed by the party against whom it is sought to be enforced.

16. SURVIVAL. Any provisions of this Agreement creating obligations extending beyond the term of this Agreement shall survive the expiration or termination of this Agreement, regardless of the reason for such termination.

17. AMENDMENTS. Any amendments to this Agreement shall be effective only if in writing and signed by the parties hereto.

18. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof.

19. GOVERNING LAW. This Agreement shall be interpreted in accordance with and governed by the law of the State of Delaware.

20. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

VENCOR, INC. EMPLOYEE

By: _____ _____

W. Bruce Lunsford
Chairman, President and
Chief Executive Officer

Exhibit 21

REGISTRANT'S SUBSIDIARIES

VCI Specialty Services, Inc., a Delaware corporation

Vencor Properties, Inc., a Delaware corporation

Vencor Investments, Inc., a Delaware corporation

Vencor Hospitals California, Inc., a Delaware corporation

Vencor Hospitals South, Inc., a Delaware corporation

Ventech Systems, Inc., a Delaware corporation

Vencor Hospitals East, Inc., a Delaware corporation

- Hahnemann Hospital, Inc., a Delaware corporation

Vencor Hospitals Illinois, Inc., a Delaware corporation

Vencor Kentucky, Inc., a Delaware corporation

Vencare, Inc., a Delaware corporation

- Vencare Hospice, Inc., a Kentucky corporation

Vencor Assisted Living Holdings, Inc., a Delaware corporation

Vencor Facility Services, Inc., a Delaware corporation

Vencor Insurance Holdings, Inc., a Delaware corporation

- Vencor Provider Network, Inc., a Delaware corporation
- Vencor Insurance Company, an Indiana corporation

Vencor Pediatric Care, Inc., a Delaware corporation

Vencor Home Health Services, Inc., a Delaware corporation

Healthcare Rehabilitation, a California corporation

First Healthcare Corporation, a Delaware corporation

- Hillhaven of Central Florida, Inc., a Delaware corporation
- Northwest Health Care, Inc., an Idaho corporation
- Pasatiempo Development Corp., a California corporation
- Ledgewood Health Care Corporation, a Massachusetts corporation*

Cornerstone Insurance Company, a Cayman Islands corporation

Brim of Massachusetts, Inc., a Massachusetts corporation

Medisave Pharmacies, Inc., a Delaware corporation

- Medisave of Tennessee, Inc., a Delaware corporation
- American X-Rays, Inc., a Louisiana corporation

First Rehab, Inc., a Delaware corporation

Advanced Infusion Systems, Inc., a California corporation

Nationwide Care, Inc., an Indiana corporation

Meadowvale Skilled Care Center, Inc., a Delaware corporation

TheraTx, Incorporated, a Delaware corporation

Health Care Holdings, Inc., a Delaware corporation

Health Care Technology, Inc., a Delaware corporation

Helian Health Group, Inc., a Delaware corporation

Helian ASC of Northridge, Inc., a California corporation

MedEquities, Inc., a California corporation

Helian Recovery Corporation, a California corporation

Recovery Inns of America, Inc., a California corporation

VC - OIA, Inc., an Arizona corporation

Palo Alto Surgecenter Corporation, a California corporation

VC - TOCH, Inc., an Arizona corporation

Horizon Healthcare Services, Inc., a Georgia corporation

Tunstall Enterprises, Inc., a Georgia corporation

PersonaCare, Inc., a Delaware corporation

Lafayette Health Care Center, Inc., a Georgia corporation

PersonaCare Living Center of Clearwater, Inc., a Delaware corporation

PersonaCare of Bradenton, Inc., a Delaware corporation

PersonaCare of Clearwater, Inc., a Delaware corporation

PersonaCare of Connecticut, Inc., a Connecticut corporation

Courtland Gardens Health Center, Inc., a Connecticut corporation

Homestead Health Center, Inc., a Connecticut corporation

Stamford Health Facilities, Inc., a Connecticut corporation

PersonaCare of Georgia, Inc., a Delaware corporation

PersonaCare of Huntsville, Inc., a Delaware corporation

PersonaCare of Little Rock, Inc., a Delaware corporation

PersonaCare of Ohio, Inc., a Delaware corporation

PersonaCare of Owensboro, Inc., a Delaware corporation

PersonaCare of Pennsylvania, Inc., a Delaware corporation

PersonaCare of Pompano East, Inc., a Delaware corporation

PersonaCare of Pompano West, Inc., a Delaware corporation

PersonaCare of Reading, Inc., a Delaware corporation

PersonaCare of Rhode Island, Inc., a Rhode Island corporation

PersonaCare of San Antonio, Inc., a Delaware corporation

PersonaCare of San Pedro, Inc., a Delaware corporation

PersonaCare of Shreveport, Inc., a Delaware corporation

PersonaCare of St. Petersburg, Inc., a Delaware corporation.

PersonaCare of Warner Robbins, Inc., a Delaware corporation

PersonaCare of Wisconsin, Inc., a Delaware corporation

PersonaCare Properties, Inc., a Georgia corporation

THTX, Inc., a Delaware corporation

Tucker Nursing Center, Inc., a Georgia corporation

Respiratory Care Services, Inc., a Delaware corporation

TheraTx Health Services, Inc., a Delaware corporation

TheraTx Rehabilitation Services, Inc., a Delaware corporation

TheraTx Healthcare Management, Inc., a Delaware corporation

TheraTx Management Services, Inc., a California corporation

TheraTx Medical Supplies, Inc., a Delaware corporation

TheraTx Staffing, Inc., an Illinois corporation

VC - WM, Inc., a Florida corporation

Transitional Hospitals Corporation, a Nevada corporation

Community Psychiatric Centers of Oklahoma, Inc., an Oklahoma corporation

Community Psychiatric Centers Properties of Oklahoma, Inc., an Oklahoma corporation

CPC of Georgia, Inc., a Georgia corporation

Peachtree - Parkwood Hospital, Inc., a Georgia corporation

Interamericana Health Care Group, a Nevada corporation

Caribbean Behavioral Health Systems, Inc., a Nevada corporation

InteHgro Holdings, Ltd., a Cayman Islands corporation

Gorgas International Medical Center, LLC, a Delaware limited liability company

Transitional Hospitals Corporation, a Delaware corporation

JB Thomas Hospital, Inc., a Maine corporation

THC - Chicago, Inc., an Illinois corporation

THC - North Shore, Inc., an Illinois corporation

THC - Hollywood, Inc., a Florida corporation

THC - Houston, Inc., a Texas corporation

THC - Minneapolis, Inc., a Minnesota corporation

THC - Orange County, Inc., a California corporation

THC - San Diego, Inc., a California corporation

THC - Seattle, Inc., a Washington corporation

Transitional Hospitals Corporation of Indiana, Inc., an Indiana corporation

Transitional Hospitals Corporation of Louisiana, Inc., a Louisiana corporation

Transitional Hospitals Corporation of New Mexico, Inc., a New Mexico corporation

Transitional Hospitals Corporation of Nevada, Inc., a Nevada corporation

Transitional Hospitals Corporation of Tampa, Inc., a Florida corporation

Transitional Hospitals Corporation of Texas, Inc., a Texas corporation

Transitional Hospitals Corporation of Wisconsin, Inc., a Wisconsin corporation

Transitional Hospitals Corporation of Michigan, Inc., a Michigan corporation

Community Psychiatric Centers of Arkansas, Inc., an Arkansas corporation

Community Psychiatric Centers of California, a California corporation

Community Psychiatric Centers Properties Incorporated, a California corporation

CPC Investment Corp., a California corporation

CPC Properties of Illinois, Inc., an Illinois corporation

CPC Properties of Missouri, Inc., a Missouri corporation

Community Psychiatric Centers of Florida, Inc., a Florida corporation

Community Psychiatric Centers of Idaho, Inc., an Idaho corporation

Community Psychiatric Centers of Indiana, Inc., an Indiana corporation

Community Psychiatric Centers of Kansas, Inc., a Kansas corporation

Community Psychiatric Centers of Mississippi, Inc., a Mississippi corporation

Community Psychiatric Centers of Missouri, Inc., a Missouri corporation

Community Psychiatric Centers of North Carolina, Inc., a North Carolina corporation

Community Psychiatric Centers of Utah, Inc., a Utah corporation

Community Psychiatric Centers Properties of Texas, Inc., a Texas corporation

Community Psychiatric Centers Properties of Utah, Inc., a Utah corporation

C.P.C. of Louisiana, Inc., a Louisiana corporation

CPC Managed Care Health Services, Inc., a Delaware corporation

Community Behavioral Health System, Inc., a Louisiana corporation

CPC Properties of Arkansas, Inc., an Arkansas corporation

CPC Properties of Indiana, Inc., an Indiana corporation

CPC Properties of Kansas, Inc., a Kansas corporation

CPC Properties of Louisiana, Inc., a Louisiana corporation

CPC Properties of Mississippi, Inc., a Mississippi corporation

CPC Properties of North Carolina, Inc., a North Carolina corporation

Florida Hospital Properties, a Florida corporation

Old Orchard Hospital, Inc., an Illinois corporation

Partnerships

Vencor Hospitals Texas, Ltd., a Texas limited partnership

Windsor Woods Nursing Home Partnership, a Washington general partnership

St. George Nursing Home Limited Partnership, an Oregon limited partnership

Bartlesville Nursing Home Partnership, an Oregon general partnership*

Carrollwood Care Center, a Tennessee general partnership

Foothill Nursing Company Partnership, a California general partnership*

San Marcos Nursing Home Partnership, a California general partnership

Fox Hill Village Partnership, a Massachusetts general partnership*

Starr Farm Partnership, a Vermont general partnership*

New Pond Village Associates, a Massachusetts general partnership

Hillhaven-MSC Partnership, a California general partnership*

Stockton Health Care Center Limited Partnership, an Oregon limited partnership

Medilife Pharmacy Network Partnership, a Tennessee general partnership*

Hillhaven/Indiana Partnership, a Washington general partnership

Hillhaven/Westfield Partnership, a Washington general partnership

Pharmaceutical Infusion Therapy, a California general partnership**

CPS-Sacramento, a California general partnership***

California Respiratory Care Partnership, a California general partnership**

Visiting Nurse Advanced Infusion Systems - Anaheim, a California general partnership*

Visiting Nurse Advanced Infusion Systems - Colton, a California general partnership**

Visiting Nurse Advanced Infusion Systems - Newbury Park, a California general partnership**

TheraTx Management Services, L.P., a Georgia limited partnership

Care Venture Partners, L.P., a Rhode Island limited partnership

Health Haven Associates, L.P., a Rhode Island limited partnership

Stamford Health Associates, L.P., a Connecticut limited partnership

Oak Hill Nursing Associates, L.P., a Rhode Island limited partnership

Northridge Surgery Center, Ltd., a California limited partnership****

Northridge Surgery Center Development Ltd., a California limited partnership*****

* Only fifty percent (50%) is owned by one of the Registrant's subsidiaries

** Only fifty-one percent (51%) is owned by one of the Registrant's subsidiaries

*** Only sixty percent (60%) is owned by one of the Registrant's subsidiaries

**** Only seventy percent (70%) is owned by the Registrant's subsidiaries

***** Only forty-three percent (43%) general partnership interest is owned by the Registrant's subsidiaries

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-38188) pertaining to the Vencor, Inc. Retirement Savings Plan; in the Registration Statement (Form S-8 No. 33-34191) pertaining to the Vencor, Inc. 1987 Incentive Compensation Program; in the Registration Statement (Form S-8 No. 33-40949) pertaining to the Vencor, Inc. 1987 Incentive Compensation Program - additional shares; in the Registration Statement (Form S-8 No. 33-34192) pertaining to the Vencor, Inc. 1987 Stock Option Plan for Non-Employee Directors; in the Registration Statement (Form S-8 No. 33-66774) pertaining to the Vencor, Inc. Non-Employee Directors Deferred Compensation Plan; in the Registration Statement (Form S-8 No. 33-81988) pertaining to the Vencor, Inc. 1987 Incentive Compensation Program - additional shares; in the Registration Statement (Form S-8 No. 333-02717) pertaining to the Vencor, Inc. 1987 Incentive Compensation Program - additional shares; in the Registration Statement (Form S-8 No. 333-25519) pertaining to the TheraTx, Incorporated 1996 Stock Option/Stock Issuance Plan, TheraTx, Incorporated Amended and Restated 1994 Stock Option/Stock Issuance Plan, 1989 Amended and Restated Stock Option Plan of Helian Health Group, Inc.; in the Registration Statement (Form S-8 No. 333-40733) pertaining to the Vencor Retirement Savings Plan - additional shares; in the Registration Statement (Form S-8 No. 333-40735) pertaining to the Vencor, Inc. 1997 Stock Option Plan for Non-Employee Directors; in the Registration Statement (Form S-8 No. 333-40737) pertaining to the Vencor, Inc. 1997 Incentive Compensation Plan; and in the Registration Statement (Form S-3 No. 33-71910) pertaining to shares to be issued in connection with acquisitions, of our report dated January 26, 1998, with respect to the consolidated financial statements and schedule of Vencor, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1997.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 10, 1998

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This schedule contains summary information extracted from Vencor, Inc.'s
consolidated financial statements for the twelve months ended December 31, 1997
and is qualified in its entirety by reference to such statements.
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