

BEVERLY ENTERPRISES INC

Form 10-Q

November 12, 2003

**Table of Contents**

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2003**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission file number 1-9550**

**Beverly Enterprises, Inc.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**62-1691861**  
*(I.R.S. Employer  
Identification No.)*

**One Thousand Beverly Way**

**Fort Smith, Arkansas 72919**  
*(Address of principal executive offices)*

**Registrant's telephone number, including area code: (479) 201-2000**

**Registrant's website: [www.beverlycares.com](http://www.beverlycares.com)**

Indicate by check mark whether 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes     No

Indicate by check mark if Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).    Yes     No

Shares of Registrant's Common Stock, \$.10 par value, outstanding, exclusive of treasury shares,

at October 31, 2003    107,122,286

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**TABLE OF CONTENTS**

PART I

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS September 30, 2003 (Unaudited)

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ITEM 4. Controls and Procedures

PART II

ITEM 1. Legal Proceedings

ITEM 6(a). Exhibits

ITEM 6(b). Reports on Form 8-K

SIGNATURE

EX-10.1 Credit Agreement

EX-10.2 Guaranty and Collateral Agreement

EX-15 Acknowledgement Letter of Ernst & Young LLP

EX-31.1 CEO Certification Pursuant to Section 302

EX-31.2 CFO Certification Pursuant to Section 302

EX-32.1 CEO Certification Pursuant to Section 906

EX-32.2 CFO Certification Pursuant to Section 906

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**Table of Contents**

**BEVERLY ENTERPRISES, INC.**

**FORM 10-Q**

**SEPTEMBER 30, 2003**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
ITEM 1. Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Financial Statements	5
Independent Accountant's Review Report	15
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	25
ITEM 4. Controls and Procedures	25
<b>PART II OTHER INFORMATION</b>	
ITEM 1. Legal Proceedings	26
ITEM 6. Exhibits and Reports on Form 8-K	28

Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****BEVERLY ENTERPRISES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands)

	September 30, 2003	December 31, 2002
	(Unaudited)	(Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 168,717	\$ 115,445
Accounts receivable patient, less allowance for doubtful accounts: 2003 \$34,953; 2002 \$43,189	156,850	169,100
Accounts receivable nonpatient, less allowance for doubtful accounts: 2003 \$1,873; 2002 \$1,347	17,461	6,799
Notes receivable, less allowance for doubtful notes: 2003 \$2,993; 2002 \$6,038	10,940	10,388
Operating supplies	11,353	13,980
Assets held for sale	16,440	36,418
Investment in Beverly Funding Corporation	30,923	
Prepaid expenses and other	37,505	23,577
	<u>450,189</u>	<u>375,707</u>
Property and equipment, net	744,235	789,283
Other assets:		
Goodwill, net	57,593	63,377
Other, less allowance for doubtful accounts and notes: 2003 \$5,195; 2002 \$1,853	88,360	121,528
	<u>145,953</u>	<u>184,905</u>
	<u>\$1,340,377</u>	<u>\$1,349,895</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 56,621	\$ 65,546
Accrued wages and related liabilities	105,410	98,206
Accrued interest	13,795	12,783
General and professional liabilities	80,874	77,025
Federal government settlement obligations	12,856	11,915
Liabilities held for sale	679	3,239
Other accrued liabilities	116,474	107,241
Current portion of long-term debt	17,223	41,463
	<u>403,932</u>	<u>417,418</u>
Long-term debt	553,335	588,714
Other liabilities and deferred items	183,289	190,291

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Commitments and contingencies		
Stockholders' equity:		
Preferred stock, shares authorized: 25,000,000		
Common stock, shares issued: 2003 113,249,341; 2002 115,424,081		
	11,542	11,325
Additional paid-in capital	894,409	891,782
Accumulated deficit	(601,631)	(641,293)
Accumulated other comprehensive income	4,059	517
Treasury stock, at cost: 2003 8,391,546 shares; 2002 8,301,795 shares		
	(108,558)	(108,859)
	<u>199,821</u>	<u>153,472</u>
Total stockholders' equity	<u>\$1,340,377</u>	<u>\$1,349,895</u>

Note: The balance sheet at December 31, 2002 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

**Table of Contents****BEVERLY ENTERPRISES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net operating revenues	\$531,124	\$517,323	\$1,553,444	\$1,549,086
Interest income	1,172	1,443	3,559	3,564
	<u>532,296</u>	<u>518,766</u>	<u>1,557,003</u>	<u>1,552,650</u>
Costs and expenses:				
Operating and administrative:				
Wages and related	320,512	316,179	938,760	937,448
Provision for insurance and related items	33,639	20,460	99,206	77,309
Other	132,658	127,853	398,957	391,967
Interest	16,639	16,064	49,340	48,623
Depreciation and amortization	15,879	17,363	46,642	52,048
Florida insurance reserve adjustment				22,179
California investigation settlement and related costs			(925)	6,300
Adjustment to estimated reserves related to settlements of federal government investigations				(6,940)
Asset impairments, workforce reductions and other unusual items	2,726	3,413	4,361	3,413
	<u>522,053</u>	<u>501,332</u>	<u>1,536,341</u>	<u>1,532,347</u>
Income before provision for income taxes, discontinued operations and cumulative effect of change in accounting for goodwill	10,243	17,434	20,662	20,303
Provision for income taxes	1,853	1,021	4,290	3,431
	<u>8,390</u>	<u>16,413</u>	<u>16,372</u>	<u>16,872</u>
Income before discontinued operations and cumulative effect of change in accounting for goodwill	8,390	16,413	16,372	16,872
Discontinued operations, net of income taxes of \$0	1,593	(835)	23,290	5,196
Cumulative effect of change in accounting for goodwill, net of income taxes of \$0				(77,171)
	<u>\$ 9,983</u>	<u>\$ 15,578</u>	<u>\$ 39,662</u>	<u>\$ (55,103)</u>
Net income (loss)				
Net income (loss) per share of common stock:				
Basic:				
Before discontinued operations and cumulative effect of change in accounting for goodwill	\$ 0.08	\$ 0.16	\$ 0.15	\$ 0.16
Discontinued operations, net of income taxes	0.01	(0.01)	0.22	0.05
Cumulative effect of change in accounting for goodwill, net of income taxes				(0.74)
	<u>\$ 0.09</u>	<u>\$ 0.15</u>	<u>\$ 0.37</u>	<u>\$ (0.53)</u>
Net income (loss) per share of common stock				



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Shares used to compute basic net income (loss) per share	107,142	104,865	106,356	104,681
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted:				
Before discontinued operations and cumulative effect of change in accounting for goodwill	\$ 0.08	\$ 0.16	\$ 0.15	\$ 0.16
Discontinued operations, net of income taxes	0.01	(0.01)	0.22	0.06
Cumulative effect of change in accounting for goodwill, net of income taxes				(0.74)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss) per share of common stock	\$ 0.09	\$ 0.15	\$ 0.37	\$ (0.52)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Shares used to compute diluted net income (loss) per share	107,600	104,937	106,510	105,310
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

See accompanying notes.

Table of Contents**BEVERLY ENTERPRISES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Dollars in thousands)**

	Nine Months Ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 39,662	\$ (55,103)
Adjustments to reconcile net income (loss) to net cash provided by operating activities, including discontinued operations:		
Depreciation and amortization	52,845	66,121
Provision for reserves on patient, notes and other receivables, net	22,670	34,468
Amortization of deferred financing costs	3,655	2,332
Florida insurance reserve adjustment		22,179
California investigation settlement and related costs	(925)	6,300
Adjustment to estimated reserves related to settlements of federal government investigations		(6,940)
Asset impairments, workforce reductions and other unusual items	5,224	4,523
Cumulative effect of change in accounting for goodwill		77,171
(Gains) losses on dispositions of facilities, clinics and other assets, net	(47,254)	2,605
Insurance related accounts	4,189	14,850
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable patient	(20,153)	6,640
Operating supplies	1,274	2,457
Prepaid expenses and other receivables	(6,635)	(1,756)
Accounts payable and other accrued liabilities	2,501	(72,405)
Income taxes payable	2,337	4,496
Other, net	(5,963)	(9,046)
Total adjustments	13,765	153,995
Net cash provided by operating activities	53,427	98,892
Cash flows from investing activities:		
Capital expenditures	(29,054)	(84,170)
Proceeds from dispositions of facilities, clinics and other assets	173,102	156,965
Payments for designated funds, net	(5,320)	(145)
Other, net	(8,904)	(2,711)
Net cash provided by investing activities	129,824	69,939
Cash flows from financing activities:		
Repayments of long-term debt	(58,212)	(111,399)
Repayments of off-balance sheet financing	(69,456)	(42,901)
Proceeds from exercise of stock options	98	1,699
Deferred financing costs	(2,409)	99
Net cash used for financing activities	(129,979)	(152,502)

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Net increase in cash and cash equivalents	<u>53,272</u>	<u>16,329</u>
Cash and cash equivalents at beginning of period	115,445	89,343