

BEVERLY ENTERPRISES INC

Form 10-Q

November 09, 2004

**Table of Contents**

---

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 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, 2004**

**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.beverlycorp.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

Edgar Filing: BEVERLY ENTERPRISES INC - Form 10-Q

treasury shares, at October 29, 2004 108,090,662

---

---

---

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, and other information we provide from time to time, contains certain forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations or cash flows, continued performance improvements, ability to service, refinance, replace and comply with our debt obligations, ability to finance growth opportunities, ability to control our patient care liability costs, ability to respond to changes in government regulations, ability to execute our three-year strategic plan, and similar statements, including, without limitation, those containing words such as believes, anticipates, expects, intends, estimates, plans, and other similar expressions, are forward-looking statements.

These forward-looking statements reflect management's beliefs and assumptions and are based on information currently available to management. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by us in those statements. Numerous factors will affect our actual results, some of which are beyond our control. These include, but are not limited to:

national and local economic conditions, including their effect on the availability and cost of labor, utilities and materials;

the effect of government regulations and changes in regulations governing the healthcare industry, including our compliance with such regulations;

changes in Medicare and Medicaid payment levels and methodologies and the application of such methodologies by the government and its fiscal intermediaries;

the effects of adopting new accounting standards;

our ability to integrate acquisitions and realize synergies and accretion;

liabilities and other claims asserted against us, including patient care liabilities, as well as the resolution of lawsuits brought about by the announcement or settlement of federal government investigations and the announcement of increases in reserves for patient care liabilities;

our ability to predict future reserve levels for patient care and workers' compensation liabilities;

our ability to obtain adequate insurance coverage with financially viable insurance carriers, as well as the ability of our insurance carriers to fulfill their obligations;

our ability to execute strategic divestitures in a timely manner at fair values;

our ability to improve our fundamental business processes and reduce costs throughout the organization;

our ability to attract and retain qualified personnel;

the availability and terms of capital to fund acquisitions, capital improvements and ongoing operations;

our ability to repurchase our stock and changes in our stock price after any such repurchases;

the competitive environment in which we operate;

our ability to maintain and increase census (volume of residents) levels; and

demographic changes.

Investors should also refer to Item 1. Business in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as amended, for a discussion of various governmental regulations and other operating factors relating to the healthcare industry and the risks inherent in them. You should carefully consider the risks described and referred to in this report before making any investment decisions in the

Company. There may be additional risks that we do not presently know of or that we currently do not deem

**Table of Contents**

material. If any of these risks actually occur, our business, financial condition, results of operations or cash flows could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. Given these risks and uncertainties, we can give no assurances that any forward-looking statements, which speak only as of the date of this report will, in fact, transpire, and, therefore, we caution investors not to place undue reliance on them. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**BEVERLY ENTERPRISES, INC.**

**FORM 10-Q**

**September 30, 2004**

**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>ITEM 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Report of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>	29
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>ITEM 4. Controls and Procedures</u>	40
<b><u>PART II OTHER INFORMATION</u></b>	
<u>ITEM 1. Legal Proceedings</u>	41
<u>ITEM 6. Exhibits</u>	41
<u>Form of Long-Term Incentive Plan Notice</u>	
<u>Form of Restricted Stock Agreement for Non-employee Directors Stock Option Plan</u>	
<u>Form of Restricted Stock Agreement for 1997 Long-Term Incentive Plan</u>	
<u>Form of Option Agreement for Non-Employment Directors Stock Option Plan</u>	
<u>Form of Option Agreement for 1997 Long-Term Incentive Plan</u>	
<u>Acknowledgement Letter of Ernst &amp; Young LLP</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification of CEO</u>	
<u>Rule 13a-14(a)/15d-14(a) Certification of CFO</u>	
<u>Section 1350 Certification of CEO</u>	
<u>Section 1350 Certification of CFO</u>	

**Table of Contents****PART I****ITEM 1. FINANCIAL STATEMENTS.****BEVERLY ENTERPRISES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

	September 30, 2004	December 31, 2003
	(Unaudited)	(Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 207,360	\$ 258,815
Accounts receivable, less allowance for doubtful accounts: 2004 \$33,326; 2003 \$31,615	215,338	164,635
Notes receivable, less allowance for doubtful notes: 2004 \$2,300; 2003 \$3,336	6,499	13,724
Operating supplies	9,250	10,425
Assets held for sale	15,128	3,498
Investment in Beverly Funding Corporation		31,342
Prepaid expenses and other	39,135	33,377
	<u>492,710</u>	<u>515,816</u>
Total current assets	492,710	515,816
Property and equipment, net	646,860	694,220
Other assets:		
Goodwill, net	124,467	57,102
Other, less allowance for doubtful accounts and notes: 2004 \$1,462; 2003 \$2,120	70,635	79,283
	<u>195,102</u>	<u>136,385</u>
Total other assets	195,102	136,385
	<u>\$ 1,334,672</u>	<u>\$ 1,346,421</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59,081	\$ 67,572
Accrued wages and related liabilities	95,478	116,717
Accrued interest	9,066	6,896
General and professional liabilities	63,422	93,736
Federal government settlement obligations	14,064	13,125
Liabilities held for sale	622	672
Other accrued liabilities	87,143	102,289
Current portion of long-term debt	11,644	13,354
	<u>340,520</u>	<u>414,361</u>
Total current liabilities	340,520	414,361
Long-term debt	558,488	552,873
Other liabilities and deferred items	173,971	141,001
Commitments and contingencies		
Stockholders' equity:		

Edgar Filing: BEVERLY ENTERPRISES INC - Form 10-Q

Preferred stock, shares authorized: 25,000,000

Common stock, shares issued: 2004 116,241,478; 2003

115,594,806	11,624	11,559
Additional paid-in capital	897,476	895,950
Accumulated deficit	(538,909)	(560,825)
Treasury stock, at cost: 8,283,316	(108,498)	(108,498)
	<u>261,693</u>	<u>238,186</u>
Total stockholders' equity	<u>\$ 1,334,672</u>	<u>\$ 1,346,421</u>

**Note:** The balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

See accompanying notes.



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 508,169	\$ 461,201	\$ 1,486,304	\$ 1,345,030
Costs and expenses:				
Wages and related	300,734	275,922	856,406	807,289
Provision for insurance and related items	29,407	27,892	90,381	82,165
Other operating and administrative	131,560	116,498	391,449	346,869
Depreciation and amortization	15,918	14,783	46,241	43,634
Adjustment related to California investigation settlement				(925)
Asset impairments, workforce reductions and other unusual items	(613)	1,343	1,188	2,672
Total costs and expenses	477,006	436,438	1,385,665	1,281,704
Income before other income (expenses)	31,163	24,763	100,639	63,326
Other income (expenses):				
Interest expense	(11,122)	(16,029)	(35,068)	(47,761)
Costs related to early extinguishment of debt	(176)		(40,430)	
Interest income	1,246	1,170	4,089	3,554
Net gains on dispositions	582	2	614	399
Total other expenses, net	(9,470)	(14,857)	(70,795)	(43,808)
Income before provision for income taxes and discontinued operations	21,693	9,906	29,844	19,518
Provision for income taxes	536	1,853	3,038	4,290
Income before discontinued operations	21,157	8,053	26,806	15,228
Discontinued operations, net of taxes: for the quarters 2004 \$(59) and 2003 \$0; for the nine months 2004 \$286 and 2003 \$0	3,243	1,930	(4,890)	24,434
Net income	\$ 24,400	\$ 9,983	\$ 21,916	\$ 39,662
Net income (loss) per share of common stock:				
Basic:				
Before discontinued operations	\$ 0.20	\$ 0.08	\$ 0.25	\$ 0.14
Discontinued operations	0.03	0.01	(0.05)	0.23
Net income (loss) per share of common stock	\$ 0.23	\$ 0.09	\$ 0.20	\$ 0.37
Shares used to compute basic net income (loss) per share	108,039	107,142	107,613	106,356

Edgar Filing: BEVERLY ENTERPRISES INC - Form 10-Q

Diluted:				
Before discontinued operations	\$ 0.19	\$ 0.07	\$ 0.25	\$ 0.14
Discontinued operations	0.03	0.02	(0.05)	0.23
Net income (loss) per share of common stock	\$ 0.22	\$ 0.09	\$ 0.20	\$ 0.37
Shares used to compute diluted net income (loss) per share	109,061	107,600	108,673	106,510

See accompanying notes

Table of Contents**BEVERLY ENTERPRISES, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**  
**(Dollars in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,916	\$ 39,662
Adjustments to reconcile net income to net cash provided by (used for) operating activities, including discontinued operations:		
Depreciation and amortization	47,656	52,845
Provision for reserves on accounts, notes and other receivables, net	10,772	22,670
Amortization of deferred financing costs	2,107	3,655
Costs related to early extinguishments of debt	40,430	
Asset impairments, workforce reductions and other unusual items	3,799	5,224
Gains on dispositions of facilities and other assets, net	(455)	(47,254)
Adjustment related to California investigation settlement		(925)
Insurance related accounts	(12,833)	4,189
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(53,955)	(20,153)
Prepaid expenses	8,139	(6,635)
Accounts payable and other accrued expenses	(23,140)	2,501
Income taxes	(2,497)	2,337
Other, net	(4,219)	(4,689)
	<u>15,804</u>	<u>13,765</u>
Net cash provided by operating activities	37,720	53,427
<b>Cash flows from investing activities:</b>		
Capital expenditures	(37,964)	(29,054)
Payments for acquisitions, net of cash acquired	(71,479)	(404)
Proceeds from dispositions of facilities and other assets, net	22,346	173,102
Proceeds from Beverly Funding Corporation investment	28,956	
Collections on notes receivable	32,268	510
Payments for designated funds, net	(958)	(5,320)
Other, net	(24,316)	(9,010)
	<u>(51,147)</u>	<u>129,824</u>
Net cash (used for) provided by investing activities	(51,147)	129,824
<b>Cash flows from financing activities:</b>		
Repayments of long-term debt	(207,479)	(58,212)