BEVERLY ENTERPRISES INC
Form 10-Q
November 12, 2003

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2003
o	**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	**62-1691861**
(State or other jurisdiction of incorporation or organization)	*(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

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 þ No o

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

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

at October 31, 2003 107,122,286

TABLE OF CONTENTS

Table of Contents

BEVERLY ENTERPRISES, INC.

FORM 10-Q

SEPTEMBER 30, 2003

TABLE OF CONTENTS

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)
ASSETS		
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
Total current assets	450,189	375,707
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
Total other assets	145,953	184,905
	$ 1,340,377	$ 1,349,895
LIABILITIES AND STOCKHOLDERS EQUITY		
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
Total current liabilities	403,932	417,418
Long-term debt	553,335	588,714
Other liabilities and deferred items	183,289	190,291

Commitments and contingencies		
Stockholders equity:		
Preferred stock, shares authorized: 25,000,000		
Common stock, shares issued: 2003 115,424,081; 2002 113,249,341	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 8,301,795 shares; 2002 8,391,546 shares	(108,558)	(108,859)
Total stockholders equity	199,821	153,472
	$1,340,377	$1,349,895

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
Total revenues	532,296	518,766	1,557,003	1,552,650
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
Total costs and expenses	522,053	501,332	1,536,341	1,532,347
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
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)
Net income (loss)	$ 9,983	$ 15,578	$ 39,662	$ (55,103)
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)
Net income (loss) per share of common stock	$ 0.09	$ 0.15	$ 0.37	$ (0.53)

Shares used to compute basic net income (loss) per share	107,142	104,865	106,356	104,681
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)
Net income (loss) per share of common stock	$ 0.09	$ 0.15	$ 0.37	$ (0.52)
Shares used to compute diluted net income (loss) per share	107,600	104,937	106,510	105,310

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)

Net increase in cash and cash equivalents	53,272	16,329
Cash and cash equivalents at beginning of period	115,445	89,343
Cash and cash equivalents at end of period	$ 168,717	$ 105,672
Supplemental schedule of cash flow information:		
Cash paid (received) during the period for:		
Interest, net of amounts capitalized	$ 45,799	$ 48,954
Income tax payments (refunds), net	1,953	(1,065)

See accompanying notes.

BEVERLY ENTERPRISES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003
(Unaudited)

Note 1. General

Basis of Presentation

References throughout this document to the Company include Beverly Enterprises, Inc. and its wholly owned subsidiaries. In accordance with the Securities and Exchange Commission s Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we, our, ours and us refer only to Beverly Enterprises, Inc. and its wholly owned subsidiaries and not to any other person.

We have prepared these condensed consolidated financial statements without audit. In management s opinion, these condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the results of operations for the three-month and nine-month periods ended September 30, 2003 and 2002 in accordance with the rules and regulations of the Securities and Exchange Commission. Although certain information and footnote disclosures required by accounting principles generally accepted in the United States have been condensed or omitted, we believe that the disclosures in these condensed consolidated financial statements are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read along with our Annual Report on Form 10-K/ A for the fiscal year ended December 31, 2002 filed with the Securities and Exchange Commission. Our results of operations for the three-month and nine-month periods ended September 30, 2003 are not necessarily indicative of the results for a full year.

Results of operations for the nine months ended September 30, 2002 include the cumulative effect of a change in accounting for goodwill of $77.2 million, net of income taxes, or $0.74 per share, resulting from the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

Certain prior year amounts have been reclassified to conform with the 2003 presentation.

The Company s website www.beverlycares.com provides access to the Company s Securities and Exchange Commission reports within 24 hours of filing.

Use of Estimates

Accounting principles generally accepted in the United States require management to make estimates and assumptions when preparing financial statements that affect:

- the reported amounts of assets and liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

They also require management to make estimates and assumptions regarding contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Transfers of Financial Assets

The Company has an agreement to sell, on an ongoing basis, certain of its patient accounts receivable through a revolving sales structure and retains servicing responsibilities for the transferred receivables. The Company accounts for the transfers of receivables as sales in accordance with Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* Accordingly, the related sold patient accounts receivable are not included in the consolidated balance sheets.

5

Table of Contents

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 1. General (Continued)

During 2003 and 2002, the Company, through its wholly owned subsidiary Beverly Health and Rehabilitation Services, Inc. (BHRS), sold on a revolving basis certain Medicaid and Veterans Administration patient accounts receivable to a non-consolidated bankruptcy remote, qualifying special purpose entity, Beverly Funding Corporation (BFC), at a discount of 1%. These daily transactions constitute true sales of receivables for which BFC bears the risk of collection.

Activities related to the revolving sales structure with BFC were as follows for the three-month and nine-month periods ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
New receivables sold	$207,159	$219,013	$629,768	$652,021
Cash collections remitted	212,722	216,557	632,281	640,575
Fees received for servicing	539	533	1,604	1,596
Loss on the sale of receivables	2,072	2,190	6,298	6,520

BHRS provides invoicing and collection services related to the receivables for a market-based servicing fee. BHRS recognizes a loss for the 1% discount at the time of sale which is included in Other operating and administrative costs and expenses and in Net cash provided by operating activities in our condensed consolidated financial statements. The loss on sale and the servicing fee revenue are not considered material to the Company s operating results or cash flows.

At September 30, 2003 and December 31, 2002, the Company had an investment in BFC of approximately $31.0 million. The investment is recorded at its estimated fair value and is subject to periodic review for other than temporary impairment. At September 30, 2003, the investment was reclassified from Other assets to current assets in the condensed consolidated balance sheet since the investment is expected to be returned to the Company within the next twelve months. The fair value is determined by discounting the expected future cash flows of the underlying receivables purchased and held by BFC at discount rates that reflect the projected payment terms and the credit risk of the receivables. We regularly update our fair value analysis for changes in timing and amount of expected future collections of the receivables. The value of our investment is written down when the analysis indicates that the investment is other than temporarily impaired.

Revenues

Approximately 80% of our net operating revenues for the three-month and nine-month periods ended September 30, 2003 and 2002, was derived from federal and state medical assistance programs (primarily Medicare and Medicaid). We record revenues when services are provided at standard charges adjusted to amounts estimated to be received under governmental programs and other third-party contractual arrangements based on contractual terms and historical experience. These revenues are reported at their estimated net realizable amounts and are subject to audit and retroactive adjustment.

All providers participating in the Medicare and Medicaid programs are required to meet certain financial cost reporting requirements. Federal and state regulations generally require the submission of annual cost reports covering revenues, costs and expenses associated with the services provided to Medicare beneficiaries and Medicaid recipients. Annual cost reports are subject to routine audits and retroactive adjustments. These audits often require several years to reach the final determination of amounts due to, or by, us under these programs.

Table of Contents

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 1. General (Continued)

Retroactive adjustments are estimated in the recording of revenues in the period the related services are rendered. These amounts are adjusted in future periods as adjustments become known or as cost reporting years are no longer subject to audits, reviews or investigations. Changes in estimates related to third party receivables resulted in an increase in net operating revenues of $4.7 million and $765,000 for the three months ended September 30, 2003 and 2002, respectively, and $6.8 million and $1.0 million for the nine months ended September 30, 2003 and 2002, respectively. We believe adequate provision has been made to reflect any adjustments that could result from audit of cost reports. However, due to the complexity of the laws and regulations governing the Medicare and Medicaid programs, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Compliance with laws and regulations governing the Medicare and Medicaid programs is subject to government review and interpretation, as well as significant regulatory action including fines, penalties, and possible exclusion from the Medicare and Medicaid programs. In addition, under the Medicare program, if the federal government makes a formal demand for reimbursement, even related to contested items, payment must be made for those items before the provider is given an opportunity to appeal and resolve the issue.

Comprehensive Income (Loss)

Comprehensive income (loss) includes charges and credits to stockholders equity not included in net income (loss). The components of comprehensive income (loss), net of income taxes, consist of the following for the three-month and nine-month periods ended September 30 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income (loss)	$ 9,983	$ 15,578	$ 39,662	$ (55,103)
Unrealized gains (losses) on available-for-sale securities, net of income taxes	2,767	(1,188)	3,542	(1,464)
Comprehensive income (loss)	$ 12,750	$ 14,390	$ 43,204	$ (56,567)

Accumulated other comprehensive income, net of income taxes, primarily consists of unrealized gains on available-for-sale securities of $4.1 million at September 30, 2003 and approximately $512,000 at December 31, 2002.

Table of Contents

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 1. General (Continued)

Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share for the three-month and nine-month periods ended September 30 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Numerator for basic and diluted net income (loss) per share	$ 9,983	$ 15,578	$ 39,662	$ (55,103)
Denominator:				
Denominator for basic net income (loss) per share weighted average shares	107,142	104,865	106,356	104,681
Effect of dilutive securities: Employee stock options	458	72	154	629
Denominator for diluted net income (loss) per share weighted average shares and assumed conversions	107,600	104,937	106,510	105,310
Basic net income (loss) per share	$ 0.09	$ 0.15	$ 0.37	$ (0.53)
Diluted net income (loss) per share	$ 0.09	$ 0.15	$ 0.37	$ (0.52)

Diluted earning per share does not include the impact of approximately 6.9 million of employee stock options outstanding for the three-month and nine-month periods ended September 30, 2003 because their effect would have been antidilutive.

Note 2. Asset Impairments, Workforce Reductions and Other Unusual Items

During the nine-month period ended September 30, 2003, we recorded net pre-tax charges totaling $4.4 million, including $1.0 million for asset impairments, $1.5 million for workforce reductions, $1.8 million for exit costs, and $523,000 for other unusual items, net of an adjustment of $447,000 primarily resulting from the settlement of a previously impaired asset above the carrying value. The $1.5 million for workforce reductions, which primarily related to 43 associates who were notified in 2003 that their positions will be eliminated, included the following:

$1.8 million of cash expenses, $1.6 million of which was paid during the nine months ended September 30, 2003; and

non-cash expenses of approximately $125,000 related to the vesting of restricted stock, less approximately $400,000 due to the cancellation of restricted stock.

During the nine-month period ended September 30, 2002, we recorded net pre-tax charges totaling $25.0 million, including the following:

$22.2 million for prior policy-year patient care liability costs related to our Florida facilities which had been previously sold;

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 2. Asset Impairments, Workforce Reductions and Other Unusual Items (Continued)

$6.3 million related to the settlement and related costs of investigation for patient care issues at certain California nursing homes (the California investigation settlement);

$3.4 million for workforce reduction and other costs related to 59 associates who were notified in the third quarter of 2002 that their positions were eliminated. Approximately $2.6 million was paid during the year ended December 31, 2002 and approximately $500,000 was paid during the nine months ended September 30, 2003;

partially offset by a decrease of $6.9 million in reserves established in conjunction with previous settlements of federal government investigations.

The following table summarizes activity in our accruals for estimated workforce reductions and exit costs (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2003		2002		2003		2002	
	Workforce Reductions	Exit Costs	Workforce Reductions	Exit Costs	Workforce Reductions	Exit Costs	Workforce Reductions	Exit Costs
Balance beginning of period	$3,067	$10,115	$1,494	$ 6,920	$ 5,418	$ 4,991	$ 7,631	$15,030
Charged to continuing operations	202	1,453	3,413		1,973	2,886	3,413	
Charged to discontinued operations		4,380				13,466		
Cash payments	(356)	(5,972)	(318)	(1,676)	(4,637)	(11,401)	(5,144)	(9,786)
Stock transactions					84		(1,027)	
Reversals/adjustments	(482)	330	(499)	(29)	(407)	364	(783)	(29)
Balance end of period	$2,431	$10,306	$4,090	$ 5,215	$ 2,431	$ 10,306	$ 4,090	$ 5,215

Note 3. Discontinued Operations

During the fourth quarter of 2002, a formal plan was approved by our Board of Directors to pursue the sale of our Matrix segment and MK Medical business unit. The decision to sell these non-strategic assets was made primarily to allow us to further reduce our debt level and to reinvest in facilities, technology and other business opportunities consistent with our strategic objectives.

During the nine months ended September 30, 2003, we recognized net pre-tax gains of $47.3 million relating to the following 2003 disposal activities:

45 nursing facilities (5,466 beds), six assisted living centers (262 units) and certain other assets for cash proceeds totaling $126.5 million;

the outpatient rehabilitation clinic operations and the managed care network of our former Matrix segment for cash proceeds of $36.0 million;

the Care Focus and MK Medical business units and certain other assets of our Home Care segment for cash proceeds totaling $9.4 million and a $1.0 million note receivable, with additional cash proceeds of $1.5 million relative to the Care Focus disposition received in October 2003; and

one non-operational nursing facility for $5.5 million, including cash and a $4.1 million note receivable.

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 3. Discontinued Operations (Continued)

During the third quarter of 2003, our Board of Directors approved a formal plan to sell nine additional nursing facilities. The decision to sell these facilities was made primarily due to their disproportionately high share of patient care liability costs and to allow us to further reduce our outstanding debt, to strengthen the nursing facility portfolio going forward, and to reinvest in technology and other business opportunities consistent with our strategic objectives. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the assets of these nursing facilities have been classified as held for sale assets in the accompanying consolidated balance sheets. The related asset carrying values have been adjusted, if appropriate, to reflect the estimated fair values less costs to sell. These nursing facilities were sold in October 2003. In addition, we have included certain non-operational assets and the remaining assets and liabilities of our former Matrix segment, which we expect to dispose of in the next twelve months, in assets and liabilities held for sale in the accompanying condensed consolidated balance sheets.

A summary of the asset and liability line items from which the reclassifications have been made at September 30, 2003 is as follows (in thousands):

	Nursing Facilities	Matrix	Other Assets	Total
Current assets	$ 482	$ 1,777	$	$ 2,259
Property and equipment, net	11,840	1,063	800	13,703
Goodwill		332		332
Other assets	122	24		146
Total assets held for sale	$ 12,444	$ 3,196	$ 800	$ 16,440
Current liabilities held for sale	$	$ 679	$	$ 679

The results of operations of the disposed facilities, clinics and other assets in the nine-month period ended September 30, 2003, as well as the results of operations of the held-for-sale assets, have been reported as discontinued operations for all periods presented in the accompanying condensed consolidated statements of operations. Also included in discontinued operations are the gains and losses on sales, additional impairments and exit costs relative to these transactions. A summary of the discontinued operations for the three-month and nine-month periods ended September 30 is as follows (in thousands):

	2003				2002			
	Matrix	Home Care	Nursing Facilities	Total	Matrix	Home Care	Nursing Facilities	Total
Three months ended September 30								
Net operating revenues	$ 3,314	$ 2,316	$ 47,712	$ 53,342	$ 21,494	$ 9,689	$ 80,728	$ 111,911
Operating income (loss)	$ 245	$ (1,106)	$ (3,236)	$ (4,097)	$ 182	$ (2,058)	$ 2,151	$ 275
Gain on sale and exit costs		309	5,381	5,690				
Impairments and other unusual items						(1,110)		(1,110)

Discontinued operations, net of income taxes of $0	$ 245	$ (797)	$ 2,145	$ 1,593	$ 182	$ (3,168)	$ 2,151	$ (835)

10

Table of Contents

BEVERLY ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2003
(Unaudited)

Note 3. Discontinued Operations (Continued)

	2003				2002			
	Matrix	Home Care	Nursing Facilities	Total	Matrix	Home Care	Nursing Facilities	Total
Nine months ended September 30								
Net operating revenues	$14,847	$19,497	$205,549	$239,893	$66,167	$ 30,572	$241,146	$337,885
Operating income (loss)	$ 353	$ (1,973)	$ (4,287)	$ (5,907)	$ 1,222	$(12,720)	$ 17,918	$ 6,420
Gain (loss) on sale and exit costs	10,940	929	34,691	46,560			(114)	(114)
Impairments and other unusual items(a)		(540)	(16,823)	(17,363)		(1,110)		(1,110)