SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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KINETIC CONCEPTS INC /TX/

CIK:**831967**| IRS No.: **741891727** | State of Incorp.:**TX** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly period ended March 31, 1994

OR

[ ] 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 1-9913

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

Texas	74-1891727
(State of incorporation)	(I.R.S. Employer Identification No.)

8023 Vantage Drive San Antonio, Texas 78230	210/524-9000
(Address of principal executive offices and zip code)	(Registrant's telephone number)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock: 43,950,370 shares as of March 31, 1994

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KINETIC CONCEPTS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except per share data)

March 31,   December 31,

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Assets	1994 (unaudited)	1993
Current assets:		
Cash and cash equivalents	$ 13,864	$ 10,280
Accounts receivable, net	64,838	63,872
Refundable income taxes	3,712	3,712
Finance lease receivables, current	7,313	6,659
Inventories	22,373	20,902
Prepaid expenses	4,657	4,709
Total current assets	116,757	110,134
Net property, plant and equipment	106,458	113,602
Finance lease receivables, net of current	6,043	7,073
Goodwill, net	44,258	44,859
Other assets, net	10,108	8,905
	$283,624	$284,573
	========	========
Liabilities and Capital Accounts		
Current liabilities:		
Note payable	$ 2,584	$ 2,144
Current installments of long-term obligations	13,479	8,872
Current installments of capital lease obligations	2,814	2,955
Current installments of ESOP loan	-	359
Accounts payable	6,366	7,751
Accrued expenses	27,272	24,499
Income taxes payable	6,599	2,647
Total current liabilities	59,114	49,227
Long-term obligations, excluding current installments	87,108	99,533
Capital lease obligations, excluding current installments	1,394	2,060
ESOP loan, excluding current installments	-	296
Deferred income taxes	6,960	7,710
	154,576	158,826
	=======	=======
Minority interest	-	40
Common stock; issued 45,502 in 1994 and 45,501 in 1993	46	46
Additional paid-in capital	18,808	18,803
Retained earnings	120,301	117,685
Cumulative foreign currency translation adjustment	(1,508)	(1,602)
Treasury stock; common, at cost, 1,552 shares in 1994 and 1,542 shares in 1993	(8,551)	(8,510)
Loan to ESOP	-	(655)
Notes receivable from officers	(48)	(60)
	$283,624	$284,573
	========	========

See accompanying notes to condensed consolidated financial statements.

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

KINETIC CONCEPTS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings (unaudited)

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(in thousands, except per share data)

	Three months ended March 31, 1994	1993
Revenue:		
Service and rental	$ 61,747	$ 61,002
Sales and other	10,337	8,961
Total revenue	72,084	69,963
Rental expenses	44,436	42,649
Cost of goods sold	5,132	4,444
	49,568	47,093
Gross profit	22,516	22,870
Selling, general and administrative expenses	13,355	11,525
Operating income	9,161	11,345
Interest expense	1,854	1,693
Earnings before income taxes, minority interest and cumulative effect of changes in accounting principle	7,307	9,652
Income taxes	3,825	3,910
Earnings before minority interest and cumulative effect of changes in accounting principle	3,482	5,742
Minority interest in subsidiary loss	40	-
Cumulative effect of change in method of accounting for inventory costing, net	742	-
Cumulative effect of changes in method of accounting for income taxes	-	450
Net earnings	$ 4,264	$ 6,192
Earnings per common and common equivalent share:		
Earnings before cumulative effect of change in accounting principle	$ 0.08	$ 0.13
Cumulative effect of change in method of accounting for inventory costing	0.02	-
Cumulative effect of change in method of accounting for income taxes	-	0.01
Earnings per share	$ 0.10	$ 0.14
Shares used in earnings per share computations	43,986	45,123

See accompanying notes to condensed consolidated financial statements.

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

KINETIC CONCEPTS, INC. AND SUBSIDIARIES

<TABLE>

Condensed Consolidated Statements of Cash Flows (unaudited)

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(in thousands)

<CAPTION>

<S>	Three months ended March 31, 1994 <C>	1993 <C>
Cash flows from operating activities:		
Net earnings	$ 4,264	$ 6,192
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,256	9,821
Other amortization, net	847	942
Provision for uncollectible accounts receivable	803	1,050
Change in assets and liabilities net of effect from acquisitions:		
Increase in accounts receivable	(1,735)	(3,022)
Increase in inventories	(1,456)	(935)
Decrease (increase) in prepaid expenses	52	(439)
Increase in other assets	(301)	(786)
Increase (decrease) in accounts payable	(1,382)	694
Increase (decrease) in accrued expenses	1,139	(419)
Increase in income taxes payable	3,961	1,804
Decrease in deferred income taxes	(750)	(934)
Net cash provided by operating activities	16,698	13,968
Cash flows from investing activities:		
Additions to property, plant, and equipment	(4,022)	(10,738)
Increase in inventory to be converted into equipment for short-term rental	(500)	(200)
Dispositions of property, plant, and equipment	434	600
Decrease in finance lease receivables	376	536
Increase in other assets	(468)	(3,878)
Net cash used by investing activities	(4,180)	(13,680)
Cash flows from financing activities:		
Borrowings (repayments) of note payable and long-term obligations	(7,378)	5,810
Repayments of capital lease obligations	(807)	(792)
Proceeds from the exercise of stock options	5	541
Minority interest in subsidiary loss, net	(40)	-
Purchase of treasury stock	(41)	(76)
Cash dividends paid to shareholders	-	(1,680)
Other	(668)	(65)
Net cash provided (used) by financing activities	(8,929)	3,738
Effect of exchange rate changes on cash and cash equivalents	(5)	(262)
Net increase in cash and cash equivalents	3,584	3,764
Cash and cash equivalents beginning of year	10,280	6,963
Cash and cash equivalents end of period	$ 13,864	$ 10,727
	========	========
Supplemental disclosure of cash flow information:		
Cash paid during the first three months for:		
Interest	$ 1,172	$ 1,788
Income taxes	57	410

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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KINETIC CONCEPTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) BASIS OF PRESENTATION

The foregoing financial information reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Interim period operating results are not necessarily indicative of the results to be expected for the full fiscal year. The financial information presented for the interim periods is unaudited and subject to year-end audit and adjustments. As a result of divisionalization, certain reclassifications of rental and selling, general and administrative expenses related to 1993 have been made to conform with the current period's presentation.

(2) INVENTORY COMPONENTS

Inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value). Inventories are comprised of the following (in thousands):

	March 31, 1994	December 31, 1993
Finished goods	$ 6,127	$ 5,902
Work in process	1,575	1,546
Raw materials, supplies and parts	23,670	21,954
	31,372	29,402
Less amounts expected to be converted into equipment for short-term rental	(9,000)	(8,500)
	$22,372	$20,902
	=======	=======

On January 1, 1994, the Company changed its method of applying overhead to inventory. Historically, a single labor overhead rate and materials overhead rate was used in valuing ending inventory. Labor overhead was applied as labor was incurred while materials overhead was applied at the time of shipping. During 1993, the Company completed a study to more precisely determine the labor overhead which should be applied to specific products, parts and accessories which resulted in the adoption of four separate labor overhead pools, and the application of materials overhead upon receipt of materials.

The Company believes that the change in the application of this accounting principle is preferable because it more accurately assigns overhead costs to the products, parts and accessories which benefit from the related activities and thus improves the matching of costs with revenues in reporting operating results.

The change in the application of this accounting principle resulted in an increase in net earnings of $742,000 (after reduction of income taxes of

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$455,000), which reflects the cumulative effect of this change for the periods prior to January 1, 1994. The proforma effects of the retroactive application of the change in accounting principle have not been disclosed as the effects cannot be reasonably estimated. The effect of the change for the quarter ended March 31, 1994 on the results of operations before the cumulative effect of the change is not material.

(3) SHARES USED IN EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE COMPUTATIONS

The weighted average number of common and common equivalent shares used in the computation of earnings per share is as follows (in thousands):

	Three months ended March 31, 1994	1993
Average outstanding common shares	43,947	44,268
Average common equivalent shares- dilutive effect of option shares	39	855
Shares used in earnings per share computations	43,986	45,123

Earnings per common and common equivalent share are computed by dividing net earnings (after deducting preferred stock dividends and accretion) by the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options (using the treasury stock method). Earnings per share computed on a fully diluted basis is not presented as it is not significantly different from earnings per share computed on a primary basis.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

First Quarter of 1994 Compared to First Quarter of 1993

The following table details the Company's Condensed Consolidated Statements of Earnings for the quarters ended March 31, 1994 and 1993 and provides the relationship of each item to total revenue and the increase or decrease and percentage change of each line item as compared to the first quarter of the prior year (in thousands):

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994		1993		Increase (decrease)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue:						
Service and rental	$ 61,747	86%	$ 61,002	87%	$ 745	1%
Sales and other	10,337	14%	8,961	13%	1,376	15%
	72,084	100%	69,963	100%	2,121	3%
Rental expenses	44,436	62%	42,649	61%	1,787	4%
Cost of goods sold	5,132	7%	4,444	6%	688	16%

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Gross profit	22,516	31%	22,870	33%	(354)	(2%)
Selling, general and administrative expenses	13,355	18%	11,525	17%	1,830	16%
Operating Income	9,161	13%	11,345	16%	(2,184)	(19%)
Interest expense	1,854	3%	1,693	2%	161	10%
Earnings before income taxes, minority interest and cumulative effect of changes in accounting principle	7,307	10%	9,652	14%	(2,345)	(24%)
Income taxes	3,825	5%	3,910	6%	(85)	(2%)
Earnings before minority interest and cumulative effect of changes in accounting principle	3,482	5%	5,742	8%	(2,260)	(39%)
Minority interest in subsidiary loss	40	-	-		40	-
Cumulative effect of change in method of accounting for inventory costing	742	1%	-		742	-
Cumulative effect of change in method of accounting for income taxes	-	-	450	1%	(450)	-
Net earnings	$ 4,264	6%	$ 6,192	9%	$(1,928)	(31%)
Earnings per share	$ 0.10		$ 0.14		$ (0.04)	(29%)
Weighted shares	43,986		45,123		(1,137)	(3%)

</TABLE>

Total revenue in the first quarter of 1994 increased by 3.0% to $72.1 million from $70.0 million in the first quarter of 1993. Revenue from KCI Therapeutic Services, KCI's specialty patient surface businesses including acute care and long-term care, was $40.8 million, down 3.7% from the first quarter of 1993. This reflects a decline in acute care revenue of 7.1% to $30.2 million as a result of the continued shift to lower priced overlays from framed products. Long-term care revenue increased 7.1% from $9.9 million in the prior year quarter to $10.6 million in the current year quarter, primarily due to increased therapy days. Revenue from KCI's International division was $10.0 million, which was comparable to the prior year quarter. Revenue from the Company's other operating divisions - NuTech, Medical Retro Design and Medical Services increased 21.4% to $21.3 million in the first quarter of 1994 due to increased revenue from NuTech and revenue contributed by Clinical Systems, Inc., which was acquired in June, 1993.

Rental expenses largely consist of service center facility and personnel costs, regional sales and administrative expenses, advertising and promotion,

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depreciation of the Company's rental equipment, the cost of the parts and accessories used to maintain the equipment and other related expenses. Rental expenses were 61.6% of total revenue in the first quarter of 1994 compared to 61.0% in the first quarter of 1993, due primarily to expenses associated with Clinical Systems, Inc., higher worker's compensation and automobile insurance expenses, and higher costs in the international division. Cost of goods sold includes the manufacturing cost of the Company's beds and other products that are sold rather than rented by the Company.

Gross profit decreased 1.5% to $22.5 million in the first quarter of 1994 from $22.9 million in the first quarter of 1993 primarily due to the increase in rental expenses partially offset by the increase in revenue.

Selling, general and administrative expenses increased 15.9% to $13.4 million in the first quarter of 1994 from $11.5 million in the first quarter of 1993. Selling, general and administrative expenses as a percentage of total revenue increased to 18.5% in the first quarter of 1994 from 16.5% in the first quarter of 1993. This increase was due primarily to expenses related to NuTech, Medical Retro Design, and research and development.

Operating income decreased 19.3% to $9.2 million in the first quarter of 1994 from $11.3 million in the prior year quarter. This decrease is due to an increase in rental and selling, general and administrative expenses partially offset by the increase in revenue.

Interest expense in the first quarter of 1994 increased 9.5% to $1.9 million from $1.7 million in the first quarter of 1993 primarily due to an increase in the average interest rate of the Company's debt under its Credit Agreement.

The Company's effective income tax rate in the first quarter of 1994 was 52.3%, compared to 40.5% in the first quarter of 1993 and 49.1% from the year ended December 31, 1993. In 1993, the annual rate differs from the first quarter due to a decline in anticipated pre-tax earnings. The effective tax rate for the first quarter of 1994 is higher than the effective tax rate for the year of 1993, primarily due to higher losses at Medical Retro Design which are not deductible for tax purposes.

During the first quarter of 1994, the cumulative losses allocated to the minority interest holder, Medical Retro Design, exceeded the balance of its investment. As a result, any future losses of Medical Retro Design will be recorded entirely by the Company.

During the first quarter of 1994, the Company recorded the cumulative effect of a change in accounting principle related to a change in its method of applying overhead to its inventory which resulted in an increase of $742,000, or $0.02 per share. Historically, a single labor overhead rate and materials overhead rate were used. Labor overhead was applied as labor was incurred while materials overhead was applied at the time of shipping. During 1994, four separate overhead pools were adopted to apply labor overhead to specific products, parts and accessories. In addition, material overhead is now applied upon receipt of materials. The Company believes that the change in the application of this accounting principle is preferable because it more accurately assigns overhead costs to the products, parts and accessories which benefit from the related activities and thus improves the matching of costs

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with revenues in reporting operating results.

During the first quarter of 1993, the Company recorded the cumulative effect of a change in accounting principle related to the adoption of Statement of Financial Accounting Standards No. 109 (FAS 109) "Accounting for Income Taxes" which resulted in an increase of $450,000, or $0.01 per share.

Net earnings decreased 31.1% to $4.3 million in the first quarter of 1994 from $6.2 million in the first quarter of 1993. Earnings per share before the effect of the cumulative changes described above decreased 38.4% to $0.08 per share from $0.13 per share in the prior year quarter. Earnings per share decreased 28.6% to $0.10 per share in the first quarter of 1994 from $0.14 per share in the prior year quarter. These decreases are primarily due to an increase in rental expenses and selling, general and administrative expenses partially offset by the increase in revenue as discussed above.

Financial Condition

The change in revenue and expenses experienced by the Company during the first quarter of 1994 and other factors resulted in changes to the Company's balance sheet as follows:

Inventory at March 31, 1994 increased $1.5 million, or 7.0%, to $22.4 million from $20.9 million at December 31, 1993 primarily due to the change in accounting principle, previously discussed.

Net property, plant and equipment at March 31, 1994 decreased $7.1 million, or 6.3%, to $106.5 million from $113.6 million at December 31, 1993 due to depreciation expense and dispositions of rental equipment which exceeded the cost of additions to rental equipment.

Other assets at March 31, 1994 increased $1.2 million, or 13.5%, to $10.1 million from $8.9 million at December 31, 1993. The growth in other assets is primarily due to the increase in restricted cash related to the Company's captive insurance company and deferred loan fees paid in 1994 related to the Company's debt refinancing.

Current installments of long-term obligations increased $4.6 million to $13.5 million at March 31, 1994 from $8.9 million at December 31, 1993 primarily due to the reclassification of certain long-term obligations to current.

Accrued expenses at March 31, 1994 increased $2.8 million, or 11.3%, to $27.3 million from $24.5 million at December 31, 1993 primarily due to accrued dividends of $1.7 million and an increase in bonus, insurance, interest and payroll related accruals.

Income taxes payable increased $4.0 million to $6.6 million at March 31, 1994 from $2.6 million at December 31, 1993 due to the accrual for 1994 first quarter federal taxes which are to be paid in the second quarter of 1994.

Long-term obligations decreased $12.4 million to $87.1 million at March 31, 1994 from $99.5 million at December 31, 1993 primarily due to repayments made on the Company's credit facility using net cash provided by operating

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activities and to the reclassification of certain long-term obligations to current.

ESOP loan, including current installments, at March 31, 1994 decreased $0.7 million from December 31, 1993 due to the repayment of that loan during the first quarter of 1994.

Market Trends

During 1993, the introduction of the American Health Security Act and a variety of competing legislative proposals created a national debate about health care reform. However, attempts to reduce our nation's health care costs did not begin in 1993. For the past decade, the health care industry has experienced increased pressure from a variety of sources to control costs and improve patient outcomes. Prior to 1983, health care providers lived in a "cost plus" environment which did not require that cost effectiveness or patient outcomes be accurately measured. In 1983, Congress created the "DRG" system under which Medicare reimbursement was based upon an individual patient's diagnosis rather than the actual cost incurred by the hospital to treat the patient. In addition, the manner in which health care providers were reimbursed for their capital costs, including the cost of buying or renting the Company's products, has been significantly limited over the past ten years. In general, the focus of these regulations has been to increase health care providers' awareness of the importance of cost effectiveness, managing patient outcomes and treating patients in the lowest cost environment which is appropriate. Further regulatory changes which will impact the health care industry loom on the horizon. Although it is uncertain which of the health care reform proposals, if any, will be enacted, it is apparent that the health care industry in the 1990's will be required to become more cost effective than it is today and further improve patient outcomes. The reimbursement which the Company receives for its products may be lowered as a result of health care reform.

Since 1987, the Company has been positioning itself to remain competitive in an environment which demands accountability for patient outcomes at a lower cost. The Company's Therapeutic Service's division offers the most complete continuum of products in the industry and controls overall patient costs by allowing the health care provider to match the needs of a particular patient with the appropriate product and therapy. The Company has also made significant investments in medical studies which demonstrate the clinical efficacy and cost effectiveness of its products. Over the past several years, the Company has entered into a number of partnering arrangements with its customers which allow its customers to obtain state of the art medical technology while at the same time lowering their overall costs. The Company believes that these types of arrangements will be necessary in order to succeed in the health care industry in the 1990's.

The Company also maintains the largest national accounts portfolio in the specialty bed industry and expects to benefit from further consolidation of providers and buying groups. At the same time, as shifts in reimbursement policy have tended to move patients into lower cost environments, the Company has continued to focus new efforts on the extended care and home care markets.

Since 1987, U.S. health care expenditures have grown 90% to $942.5 billion.

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Estimated U.S. health care expenditures are expected to exceed one trillion dollars in 1994. While future performance cannot be assured, the Company believes that it is well positioned to compete in the dynamic health care marketplace.

Liquidity and Capital Resources

During the first quarter of 1994, the Company generated net cash provided by operating activities of $16.7 million compared to $14.0 million in the prior year quarter. The Company believes that net cash provided by operations during the next twelve month period will be sufficient to provide for new investments in equipment and reduction of the Company's debt under its credit agreement.

At March 31, 1994, cash and cash equivalents totaling $13.9 million were available for general corporate purposes. Additionally, the Company maintains a Credit Agreement with a bank as an agent for itself and certain other financial institutions. The Credit Agreement permits borrowings of up to $130.0 million, $36.0 million of which was available at March 31, 1994.

At March 31, 1994, the Company was committed to purchase approximately $1.8 million of inventory associated with a new product over the remainder of this year. The Company did not have any other material purchase commitments.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

A list of all exhibits filed or included as part of this quarterly report on Form 10-Q is as follows:

EXHIBIT	BY REFERENCE	DESCRIPTION
15	Filed herewith	Letter from KPMG Peat Marwick dated May 13, 1994
18	Filed herewith	Letter from KPMG Peat Marwick dated April 22, 1994
99	Filed herewith	Letter from KPMG Peat Marwick dated April 22, 1994

(b) REPORTS ON FORM 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

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SIGNATURES

Pursuant to the requirements 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.

KINETIC CONCEPTS, INC.
(REGISTRANT)

By: JAMES R. LEININGER, M.D.
James R. Leininger, M.D.,
Chairman of the Board,
President & Chief Executive Officer

By: BIANCA A. RHODES
Bianca A. Rhodes
Senior Vice President and
Chief Financial Officer

Date: May 13, 1994

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EXHIBIT 15

Kinetic Concepts, Inc.
San Antonio, Texas

Gentlemen:

Re: Registration Statement Nos. 33-26673, 33-26674

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated April 22, 1994 related to our review of interim financial information.

Pursuant to Rule 436 (c) under the Securities Act of 1933, such report is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of sections 7 and 11 of the Act.

Very truly yours,

KPMG Peat Marwick

San Antonio, Texas
May 13, 1994

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EXHIBIT 18

The Board of Directors
Kinetic Concepts, Inc.

Gentlemen:

We have been furnished with a copy of Form 10-Q of Kinetic Concepts, Inc. and subsidiaries for the three months ended March 31, 1994, and have read the Company's statements contained in Note 2 to the condensed consolidated financial statements included therein. As stated in Note 2, the Company changed its method of accounting for the application of overhead costs in inventory. Historically, a single labor overhead rate and materials overhead rate was used in valuing ending inventory. Labor overhead was applied as labor was incurred while materials overhead was applied at the time of shipping. During 1993, the Company completed a study to more precisely determine the labor overhead to be applied to specific products, parts and accessories which resulted in the adoption of four separate labor overhead pools, and the application of materials overhead upon receipt of materials. The Company states that the newly adopted accounting principle is preferable in the circumstances because it more accurately assigns overhead costs to the products, parts and accessories which benefit from the related activities and thus improves the matching of costs with revenues in reporting operating results. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

We have not audited any financial statements of Kinetic Concepts, Inc. and subsidiaries as of any date or for any period subsequent to December 31, 1993, nor have we audited the information set forth in the aforementioned Note 2 to the condensed consolidated financial statements; accordingly, we do not express an opinion concerning the factual information contained therein.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of Kinetic Concepts, Inc. and subsidiaries' compliance with the requirements of the Security and Exchange Commission, we are furnishing this letter.

Based on our review and discussions with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

KPMG Peat Marwick

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San Antonio, Texas
April 22, 1994

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EXHIBIT 99

Independent Auditors' Report

The Board of Directors
Kinetic Concepts, Inc.:

We have reviewed the condensed consolidated balance sheet of Kinetic Concepts, Inc. and subsidiaries as of March 31, 1994, and the related condensed consolidated statements of earnings and cash flows for the three-month periods ended March 31, 1994 and 1993. These consolidated condensed financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Kinetic Concepts, Inc. and subsidiaries as of December 31, 1993, and the related consolidated statements of earnings, capital accounts, and cash flows for the year then ended (not presented herein); and in our report dated February 14, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG Peat Marwick

San Antonio, Texas
April 22, 1994

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